

Fall 1-1-2011

Military Entrepreneurs: Patterns In Latin America

Kristina Mani

Oberlin College, kristina.mani@oberlin.edu

Follow this and additional works at: https://digitalcommons.oberlin.edu/faculty_schol

Repository Citation

Mani, Kristina. Fall 2011. "Military Entrepreneurs: Patterns In Latin America." *Latin American Politics And Society* 53(3): 25-55.

This Article is brought to you for free and open access by Digital Commons at Oberlin. It has been accepted for inclusion in Faculty & Staff Scholarship by an authorized administrator of Digital Commons at Oberlin. For more information, please contact megan.mitchell@oberlin.edu.

Military Entrepreneurs: Patterns in Latin America

Kristina Mani

ABSTRACT

Despite the recent shift to democratic regimes and market-based economies, in many Latin American countries the military retains important economic roles as owner, manager, and stakeholder in economic enterprises. Such military entrepreneurship poses a challenge to the development of democratic civil-military relations and, by extension, to the development of liberal democracy in the region. While scholars have noted this situation with concern, they have given little attention to distinguishing the different types of military entrepreneurship, which reflect distinct historical patterns and implications. This article identifies two major types of military entrepreneurs in Latin America: industrializers, determined to build national defense capabilities and compete for international prestige; and nation builders, seeking to promote economic development that can foster social development and cohesion. Case studies of Argentina, Brazil, Cuba, and Ecuador demonstrate important differences between these two types in their origins, paths, and political consequences.

Militaries in Latin America are not strangers to economic enterprise. In many countries, the military has long managed firms in the national defense industry, but its economic reach is often much broader. In Argentina and Brazil, the military pioneered the development of national oil and steel companies. In Ecuador, it runs and profits from its own business enterprises, many of which are not related to the defense sector. In Cuba, it manages state-owned enterprises in key economic sectors like tourism and agriculture, while in Honduras it is called in as the apparent manager of last resort to run public companies or build national infrastructure. In El Salvador, Guatemala, Honduras, and Nicaragua, armed forces pension funds are key stakeholders in enterprises ranging from construction to finance. In only a handful of cases have militaries been divested of substantial economic holdings, notably in Argentina in the 1990s.

In Latin America during the long half-century between the 1930s and 1980s, military rule was common, and military entrepreneurship—essentially the military's ownership, management, or stakeholding of economic enterprises—frequently accompanied it. The transitions of the 1980s to electoral democracy and the market-based economy returned

civilians to power and gradually diminished the political prerogatives the armed forces had long held. In the overwhelming majority of the region's countries, defense ministries are now managed by civilians, national military budgets rank among the lowest in the world, the armed forces train for participation in U.N. peacekeeping missions, and trials of military officers for past human rights violations have resurged even in countries where amnesties had sealed the doors on the past.

Yet despite the advances that have removed Latin American militaries from positions of overt political power, in many countries the armed forces have retained economic interests as owners, managers, and stakeholders in commercial, industrial, and financial enterprises. Economic interests can empower the military in ways that undermine the achievement of democratic civilian control.¹ In particular, they can enable the armed forces to secure revenue independent of government allocation, to gain favorable access to state resources, and to maintain a tradition of nondefense roles that make the military a first-choice provider in lieu of civilian personnel. Such distortions constitute important challenges in civil-military relations and, by extension, an important challenge to strengthening and deepening democracy in the region.

Concern over the consequences of military economic activities has grown in recent years, particularly in the wake of the boom in world markets during the decade 2000–2010 for commodities from whose export the militaries in a number of Latin American countries benefit (Centeno 2007; Donadio 2007). Still, little effort has been made to distinguish different types of military entrepreneurship, along with their historical roots and contemporary implications. Latin American militaries have undertaken a variety of economic activities in a range of contexts, from Central America and the Caribbean to Brazil and the Southern Cone, in economies large and small, semi-industrialized and agriculture-based, democratic-representative, military-authoritarian, and communist-totalitarian. How can we sort them out? This is a task scholars need to undertake in order to advance the discussion of contemporary policy responses.

This article begins such a process by identifying two types of military entrepreneurs in the region: industrializers, who are determined to lessen dependence on foreign investment and build a national infrastructure for arms production; and nation builders, who seek to promote social development to advance economic redistribution and social cohesion. This article traces the development of industrializer militaries in Argentina and Brazil back to their origins in the interwar period, and the development of nation builder militaries in Cuba and Ecuador to the tumultuous last decades of the Cold War. To explain these developments, this study offers a historical-institutionalist argument that hinges on three factors: the opening of a critical economic juncture, which trig-

gers an examination of national economic priorities in the armed forces; the military's strategic priorities, which condition the kind of entrepreneurship it is likely to pursue; and the coalitional opportunities the military encounters with state or private sector actors, which affect the political viability of the military's economic undertakings.

Part of the goal of distinguishing among different types of military entrepreneurs is to specify more clearly their implications for contemporary civil-military relations. Thus, for instance, contemporary nation builders (like those of Bolivia, Cuba, and Ecuador) can gain important popular legitimacy through their economically generated social support activities, with the implication that this kind of legitimation enhances the military's de facto autonomy from civilian control.

The article continues by specifying the concept of military entrepreneurship, then explains how military entrepreneurship challenges the development of democratic civilian control of the armed forces. It provides a critical account of scholarship on the Latin American military's economic activities. It then lays out a theoretical explanation for the rise of military industrializers and nation builders, followed by narrative accounts of the major cases along these paths. In conclusion, it considers the situation of contemporary military industrializers and nation builders and the implications for achieving democratic civilian control of the military.

CONCEPTUALIZING MILITARY ENTREPRENEURSHIP

The term *military entrepreneurship* is sometimes used loosely to describe the many sorts of profitmaking in which armed actors might engage; for instance, the activities of private security firms that have multiplied in the post-Cold War period. However, to be useful for the purpose of theory building and analytical comparisons, the concept should be defined quite literally and narrowly. A fruitful conceptualization of military entrepreneurship would capture the institutional nature of the military and the innovation that is commonly associated with entrepreneurship.

As scholars since Samuel Huntington's *Soldier and the State* (1957) have emphasized, modern militaries are state-based institutional actors with collective interests and professional standards. Their interests are fundamentally corporate rather than individual. And as Joseph Schumpeter and other economists have suggested, entrepreneurship involves developing new means of production, of allocating resources in creative new ways; for instance, opening a new market, securing a new source of materials or goods, or reorganizing a sector of the economy (Schumpeter 1983, 66). The task that follows is to explain why militaries become entrepreneurial and how this matters.

Theorists of civil-military relations and of international relations have come closest to exploring these puzzles. In the area of civil-military relations, studies of conditions in the developing world have paid the most attention to what we might call “commercial preserve” military entrepreneurship. The core claim from this literature is that the armed forces pursue economic ventures to secure resources for institutional benefit (Brömmelhörster and Paes 2004, 13). Yet the kinds of enterprises the military pursues, the assets it acquires, and the explicit political legitimation it enjoys may vary substantially. For instance, in the twentieth century, militaries were involved in developing corporations, welfare foundations, and even unit-level commercial operations to generate resources that accrued to them. In several outstanding cases, the military’s commercial assets have ranged into the billions of dollars: the Turkish military’s pension fund was assessed at \$8 billion, and the Pakistani military’s assets at over \$5 billion (Gumbel 2008; Harrison 2002). Political elites frequently signal expectations that militaries should provide revenue for themselves, sometimes explicitly through state leaders, as in China in the 1980s (Mulvenon 2001). However, the most common feature of cases like these is that the military’s commercial activities have often originated as a substitute for the incapacities of the state or private sector, or as compensation for state budgets that do not fully fund defense needs (Brömmelhörster and Paes 2004, 13–15).

In contrast, international relations theorists have focused on the state-level implications of particular kinds of military entrepreneurship. They have pursued what we might call a “grand strategy” interpretation of military entrepreneurship, which emphasizes how the military’s defense procurement needs can promote the development of technology and industry, and therefore the creation of state power. For IR theorists, military entrepreneurship emerges through the doctrines and activities of modern militaries whose state-based position and strategic vision allow them to become a sponsor and consumer of new technologies that can foster the development of new sectors of the economy. Such analyses remind us that even huge bureaucracies can promote and manage innovation (Snyder 1984; Smith 1985; Rosen 1991). They do so to create advantage over adversaries through the “imaginative and competitive manipulation of resources” (Shimshoni 1990–91, 189), and their innovations can have long-term, transformative spillover effects. For instance, fordism—the practice of standardizing output in order to increase productivity—had its roots in the nineteenth-century military arms industry, when managerial structures employed in the U.S. Army were later adopted into the private sector (Smith 1985, 11). Although successful innovations from military activities may not always result or even be intended, the IR literature points usefully to the importance of exploring this angle.

How, then, might we define military entrepreneurship in a way that is narrow enough to be conceptually clear yet comprehensive enough to enable comparison among a range of real world examples? This study defines military entrepreneurship as the innovative creation of resources and new means of production by commissioned military officers acting in an institutional capacity as formal owners, managers, and stakeholders of enterprises that generate financial resources or goods directly benefiting the military. This definition captures the idea that military entrepreneurship is a product of the military as institution, which is likely to have significant implications for its durability. For instance, by acting in an institutional rather than individual capacity, military entrepreneurs are operating in ways that are generally legal and politically sanctioned—an important distinction that sets this apart from illicit activities actors might conceivably undertake.²

The institutional and legal aspects of the military's economic activities are important for providing the legitimation that enables the military to more effectively lay claim to its holdings. On the other hand, by emphasizing innovative capacity, this definition excludes from consideration some of the more common practices militaries occasionally engage in purely for profit. For instance, the security for hire provision of service that militaries can take up only constitutes entrepreneurship if it involves the creation of new goods or markets (e.g., a market for military-trained security forces).

WHY MILITARY ENTREPRENEURSHIP MATTERS

Military entrepreneurship is a controversial issue in democratic civilian control of the armed forces and a potential hindrance to the empowerment of the state and society—aspects crucial to the development of an effective consolidated democracy (Linz and Stepan 1996). Military entrepreneurship is potentially detrimental in at least three ways.

First, the military's economic activities can allow it to secure significant sources of revenue independent of government allocation. This reduces the authority of elected officials to oversee the military through the most basic kind of control a government can exert—the power of the purse (Hendrickson and Ball 2002; Brömmelhörster and Paes 2004, 11–13). As a result, elected officials may not be able to assess accurately either the real resources or the real needs for the defense budget. In Ecuador, for instance, where the military has owned more than a dozen corporations since the 1970s, the corporate profits are added into the defense budget with minimal transparency and no legislative review (García Gallegos 2004). In Indonesia, even following an independent audit as military divestiture was underway, official assessments of the

military's own economic productivity varied widely, from 25 percent to 50 percent of budget (Human Rights Watch 2006).

In many countries, the military's economic role gives it favorable access to state resources through state contracts, guarantees of its assets, and fixed rents. These advantages can perpetuate patronage practices that long characterized authoritarian Latin America and can maintain for the armed forces a privileged position in the state (Cruz and Diamint 1998). For example, through its pension fund, the Honduran military bought into indebted state holdings at bargain prices when they were "privatized" in the early 1990s. Among them is Incehsa, the country's largest cement producer, which regularly beats out competitors for public works projects. Moreover, the military's position as an institution with privileged ties to the state and its leaders effectively gives it an incentive to interfere in politics when its resources are at stake. The Ecuadorian military's stewardship of the national oil industry originated under military rule in the 1970s, yet even under subsequent civilian rule, it could claim an annual royalty from the export profits of the state oil company, Petroecuador, until its mandate expired in 1999. The royalty's expiration is considered one of the reasons for the coup that took President Jamil Mahuad from power that same year. Under his civilian successor, the military was able to secure \$150 million in compensation for the loss of the royalty (García Gallegos 2004, 39–40).

The military's economic activities constitute an important departure from its essential task of providing for national defense. They perpetuate a long tradition in which the region's armed forces have carried out multiple roles as social and political "providers" to the nation when other state and private sector actors should have filled the gaps. As a result, militaries are often the first-choice responders for political elites who want their policies carried out quickly and effectively—and who want to curry favor with their militaries as partners in national development. In Bolivia, the military fulfills President Evo Morales's charge to "serve the people" as the regular distributors of bonus monies to school-aged children and the elderly—two hundred million dollars annually to the latter alone (*Mercosur Noticias* 2007). In Ecuador, President Rafael Correa turned over the management of Petroecuador to the navy as a way to halt the corruption that had plagued the firm under civilian management.

Yet excessive involvement in such nondefense activities can have costly consequences. The Ecuadorian military's defeat in the 1981 border conflict with Peru led it to realize that excessive involvement in administering the state was detrimental to its professional development and defense capabilities. But instead of shifting its focus to these areas, the military expanded its social activities in more targeted ways, developing agricultural production in Amazon communities as a way to colonize the territories and peoples barely reached by the state (Ortiz 2006, 80).

Of course, each of these concerns is a variable factor. It is entirely plausible, for instance, that military economic activities can be transparent, accountable, and efficient, and that they do not impinge on the military's professional capabilities. The track record, however, tends to reinforce perverse dynamics. In many cases, these challenges warrant concerted reforms initiated by both elites and civil society actors.

SURVEYING THE SCHOLARSHIP

During the last two decades, scholarship on the military in Latin America has focused on the development of civilian control of the armed forces in democracy. With much of this scholarship in the hands of political scientists, attention has generally been on how new military roles and the design of defense institutions affect the military's ability to influence politics and contest civilian authority (Goodman 1996; Norden 1996; Fitch 1998; Arceneaux and Pion-Berlin 2000; Pion-Berlin 2009). Less attention has gone to studying the military's economic roles systematically.³

In earlier decades, scholars from a range of disciplines frequently drew attention to the military's involvement in the economy. The 1960s brought a first wave of studies, often by economic historians and historically minded economists, who identified the military as a key (and often admirable) protagonist in economic development and industrialization (Leff 1968; Baer 1969; Wirth 1970; Solberg 1979). In the 1970s and 1980s, a second wave of studies emphasized structural factors tying the military to the development of industry and the defense sector. While studies of defense industrial production in the developing world often highlighted the military's protagonism as a structural consequence of international stratification (Neuman 1984; Katz 1984; Brzoska and Ohlson 1986), scholars of Latin American militaries proper interpreted military entrepreneurship more critically, linking it to the development of international capitalism or to a militarization of the state and society that produced the era's bureaucratic-authoritarian regimes (Morales Domínguez 1973; Varas 1985; Rouquié 1987).

As military rule began to wind down, scholars remained concerned that the economic roles the military had constructed for itself would be difficult to dislodge and would constitute one of several ways the military could diversify itself in order to retain institutional autonomy under new democratic regimes (Stepan 1988; Varas 1989). The inefficiencies of state-owned enterprises under military stewardship frequently drew attention (Wionczek 1985; Dagnino 1988; López 1988), though by the mid-1990s, scholars of civil-military relations were taking stock of new forms of ownership that militaries were developing thorough pension fund holdings in nondefense sectors like banking and construction (Goodman 1996; Rial 1996; Brenes and Casas 1998).

By the end of the decade, scholars were asserting that contemporary forms of military entrepreneurship were unequivocally detrimental to the establishment of democratic civilian control of the military (Cruz and Diamint 1998). In recent years, other policy-oriented accounts have developed a similar critique—that entrepreneurship is one of the ways through which militaries have reinvented themselves as significant players in a new political-economic security environment, and that the lack of civilian interest in defense issues leaves many of today's militaries in the position of being well resourced but poorly guided by political and civil society (Centeno 2007; Donadio 2007).

In consequence, virtually all such studies since the 1990s have focused on the implications of military entrepreneurship and the need for remedies to curtail it. Yet while policy implications are surely a vital area for analysis, it seems difficult to assess them effectively without first sorting among the wide-ranging economic activities the region's armed forces have engaged in over many decades. Owning banks and supermarkets is not the same as lobbying for and managing Brazil's Volta Redona steel mill. Indeed, consideration of strategic rationales for "military production" in Latin America still deserves more serious attention (Acuña and Smith 1995, 122). Moreover, relatively few comparative studies of military economic activities exist, particularly ones that are detailed and historically informed.⁴ In short, we need studies that recognize and analyze different kinds of military entrepreneurship—specifying factors that motivate it, shape its evolution, and sustain it. The remainder of the article works toward this end.

EXPLAINING TWO TYPES OF MILITARY ENTREPRENEURSHIP

An important general factor that primed the military in Latin America toward entrepreneurship was its capacity in regard to the state. In much of Latin America, the armed forces developed ahead of state institutions. In the period 1870–1940, professionalization set the military apart from other components of the state. European military missions accelerated the process in which Latin American forces emulated the organization and doctrines of the world's most advanced forces (Nunn 1983; Resende-Santos 2007).

In practical terms, this evolution made Latin American militaries not only defenders of the nation but also agents of the state- and nation-building process—citizenmakers through obligatory military service, conquerors of uncontrolled territory, surveyors and explorers for states that were often unable to tax and administer their domains as their European antecedents had (Centeno 2002; Rouquié 1987). In ideological terms, it led militaries across the region to see themselves as the

essential component of the state, a self-view that paradoxically became intertwined with a corporate identity that set the military apart from other state organizations and from society as a whole (Varas 1985). As a result, by the early twentieth century, the military's protagonism in the economy as much as in politics was primed, though not assured.

Of course, there were also notable exceptions to this strong military-weak state norm. By the mid-twentieth century, such exceptions included countries where civilian elites had built effective states before strong militaries (Chile, Uruguay) and where social and political conflict, both low (Costa Rica) and high (Colombia), precluded creation of any significant national military. Among these, not even in Chile did the military become entrepreneurial in any meaningful way. For instance, during his first term, Chile's only popularly elected military president, Carlos Ibáñez (1927-31), created the Chilean air force and placed the country's first airline, LAN-Chile, under its management, but otherwise the military stayed out of politics and the economy. Even during the military dictatorship inaugurated in 1973, General Augusto Pinochet turned to civilians to transform the economy. Although he expanded state resources for production at the state-owned, military-run defense firms that had been established earlier (FAMAE, ASNAR, ENAER), the expansion was propelled not by long-term planning but by the shock of the U.S. arms embargo of 1977 (Acuña and Smith 1995, 136).

What, then, led to the development of military entrepreneurship in numerous significant cases and in different forms? This study proposes that a critical economic juncture, the military's strategic priorities, and its coalitional opportunities were the main contingent conditions involved. Military entrepreneurship generally emerged following a critical economic juncture that called into question existing national economic priorities, spurred new thinking, and created openings for a broader array of actors to take economic initiatives. A critical juncture provides the initial structuring condition or "opening" that defines priorities among otherwise contingent choices; the result sets actors on a new path, creating institutions that endure over time and are generally difficult to undo or steer away from (Thelen and Steinmo 1992; Collier and Collier 1991). In Latin America, such openings followed global events like the Great Depression, which introduced decades of statist capitalist policies of import substitution industrialization, or occurred at national junctures, such as a revolutionary regime change.

Because of its historical role as a protagonist in the state, the military often stood out as an actor suited to implement new national initiatives in this historical juncture. Yet not all militaries were similarly motivated to fill such a role. Where the armed forces became entrepreneurial, a strong set of military strategic priorities at the critical juncture was the key indicator of the kinds of economic activities the military

would champion. Militaries whose strategic priority at the juncture was the acquisition of armaments tended to become industrializers, embarking on a path to promote industrialization that could provide a domestic base for arms production. Military industrializers emerged primarily in states where militaries maintained a strong geopolitical orientation (and often a history of rivalry with neighbors) and prioritized the acquisition of armaments that could enable them to compete militarily with their neighbors. We could label this crudely as a strategic prioritization of “guns over butter”—significant in Latin America not because armed forces sought armaments, but because they recognized a dangerous dependence on foreign powers for arms and industrial inputs and sought to overcome it.

In contrast, militaries whose strategic priority at the critical juncture was social development tended to become nation builders, creating economic enterprises intended to advance economic redistribution and social cohesion. In the Latin American context, such military nation builders and their strategic prioritization of “butter over guns” have been rare, yet they emerged during the Cold War, particularly in the left-oriented militaries that took power in the Andes in the 1960s and 1970s and in the revolutionary regimes of Cuba and Nicaragua (where “guns” often could be sourced through new channels, such as the Soviet Union, allowing “butter” to be a realistic priority).

Still, a structural opening and motivating strategic beliefs were insufficient on their own to initiate military entrepreneurship of any substance. Political allies were also necessary. Thus the coalitional opportunities for the military to ally on an economic project—for instance, with other actors from the state and private sector—substantially shaped the political viability of their endeavors. Militaries that could operate with support from civilian officials, bureaucrats, or private sector leaders were able to take up economic activities with greater survivability than those that did not because they had greater resources, crucial innovative capacity, and political backing to rely on. Still, the maintenance of such partnerships was not guaranteed; they would require the continued compatibility of interests among partners in the coalition.

These factors together illuminate a process of institution building in which a major catalytic event sets in motion powerful motivating ideas and political alliances that produce military entrepreneurship. They suggest a typology of entrepreneurship that varies in two dimensions: the military’s strategic prioritization of either national defense or social development, determining the kind of economic activities it undertook; and the scope of the coalitional support the military could garner for these endeavors, determining its ability to keep them politically viable over the long term. Table 1 brings these two dimensions together to identify four distinctive forms of military entrepreneurship.

Table 1. Types of Military Entrepreneurship in Latin America

Coalitional Opportunities	Military Strategic Priority	
	National Defense	Social Development
Broad	Industrializers with strong political viability Brazil 1937–90	Nation builders with strong political viability Cuba 1989–
Narrow	Industrializers with tenuous political viability Argentina 1941–90	Nation builders with tenuous political viability Ecuador 1972–

CASES OF INDUSTRIALIZERS AND NATION BUILDERS

Four major cases of military entrepreneurship closely approximate the ideal types in table 1. Argentina and Brazil are historical cases in which military industrializers concerned with national defense capabilities created a defense-industrial complex on behalf of the state in the era between the Great Depression of the 1930s and the installation of the liberalizing Washington Consensus in the 1990s. Cuba and Ecuador are key contemporary cases in which military nation builders seeking to achieve greater social equality and political stability came to control vital sectors of the economy as a result of dramatic shifts in opportunities (the oil boom of the 1970s in Ecuador) or sudden duress (the end of Cold War patronage in 1990s Cuba). Among the four cases, only the militaries in Brazil and Cuba were able to rely on a breadth of coalitional support that could enhance their endeavors with additional resources, innovative capacity, and political support, making their projects more durable—and therefore more politically viable—over the long term and through hard times.

Industrializers in Argentina

Argentina pioneered the industrializer path in Latin America. In a military already well established as a professional force, World War I raised concern about the need to modernize existing arsenals to keep up with new defense technologies (Potash 1969, 15). During the 1920s, the middle-class government of Marcelo de Alvear acceded with generous military budgets and created defense-related industries in aviation and petroleum at the behest of prominent army officers, who wanted to ensure that Argentina would not be dependent on foreign industrial imports.⁵

For instance, General Enrique Mosconi came to run YPF, the national oil company created in 1922. The import cutoffs during World

War I and the domineering control that British and U.S. oil trusts exercised (at one point demanding that the army pay ahead for oil deliveries) made Mosconi a tireless advocate of national oil independence. By the 1930s, he had transformed YPF into the largest enterprise in the country, one able to do everything from drilling to refining and distribution (Solberg 1982, 381).

Yet overall, Argentine officers were not won over to the need for industrial development until after the Depression (Potash 1969, 24), in the context of a renewed exclusion from foreign arms markets. While the Depression allowed light industries to take off (the product of consumer demand and agro-based wealth from earlier years), Argentina remained an agro-exporter where heavy industry was largely untried. For an increasingly politicized and nationalist military with international power ambitions, this situation became untenable when the United States denied arms sales to Argentina for its failure to join the Allied cause while offering generous lend-lease equipment to rival Brazil (Potash 1969, 101, 169). Thus in 1941, under military rule, the model Mosconi had established for YPF in the 1920s—involving majority state ownership, administrative autonomy by the military (to insulate against politicization), and technocratic military officers as directors in the administration—was applied to create the state-owned army holding company Dirección General de Fabricaciones Militares (DGFM).

DGFM's creation established the principle of military-run industrial enterprises even before the ascent of Juan Perón, whose nationalist-populist policies expanded state-led industrial development to unprecedented levels. It was followed by the creation of other state economic institutions dominated by the military. In 1944, the government created the country's first state-owned bank for industrial development, the Banco de Crédito Industrial, and the army and navy were given permanent seats on the bank's board. Economic planning would be coordinated through a new secretariat for industry and commerce, headed by a military officer-engineer drawn from the military's technical academy, the Escuela Superior Técnica (Potash 1969, 252). Ironically, by the 1950s, the indigenous industrial development model had become such a powerful political notion that Perón's attempts to introduce some foreign investment into YPF became a key factor in his ouster by the military in 1955 (Potash 1969, 287; Solberg 1982, 398).

Argentina's military-run industries peaked during the last military regime (1976–83). The army's DGFM directly employed approximately 14,000 in its 12 military plants and another 16,000 in the associated enterprises in strategic sectors like steel, chemicals, and mining, in which it held majority or significant shares; the other services ran 14 plants that included shipyards, aviation and aerospace, transport and national customs (*Latin American Weekly Report* 1979; Scheetz 2004). In

DGFM, the military's role was overall management and control, including appointing directors and executives for the associated enterprises (López 1988, 73).

By the late 1970s, a combination of political and ideological factors reinforced chronic inefficiencies that would bleed state coffers and turn the military-run sector into a state liability. These included an obsession with producing a wide range of arms for the military's own use, rather than specializing to target export markets and allow more efficient scale production; inconsistent research and development (R&D) policies that shifted according to which military services dominated the government; and the military services' fiefdom approach to defense-related R&D and production, which reduced opportunities for innovation and isolated military industries from competition with a private sector that was fixed in a supplier role (Millán 1986). As a result, Argentina never came close to achieving the goal of import substitution in sophisticated defense production to which the military had originally aspired. During the last dictatorship, the military spent an astronomical \$10 billion on foreign procurement, while defense exports reached only \$217 million (Millán 1986, 36; Solingen 1998, 38).

Such problems were closely related to the military's inability to work effectively with private or bureaucratic elites in productive coalitions in the post-Perón era. Divided civilian elites and a factionalized military typically preferred to exclude rather than include competitors. Thus, while the military was not without economic allies, it ran its industrial endeavors virtually as a military fiefdom within the state. Unlike the dynamics in Brazil in the 1960s, when the military actively cultivated private sector firms, in Argentina private sector firms were relegated to supplier status.

Solingen finds that only the ideologically liberal navy was consistent in supporting private sector innovation for strategic purposes, primarily in the nuclear sector (Solingen 1998, 38). In addition, in defense procurement, military planners preferred to seek out more sophisticated and cheaper foreign weapon designs to produce by license and shunned indigenous design after 1955. Politics generally guided such decisions. For instance, following the navy-led overthrow of Perón in 1955, the victors virtually stamped out indigenous designs pursued in the air force's Córdoba facility because that service had been Perón's creation. Thus ended an era in which Argentina had catapulted itself (by absorbing German wartime engineers) into the ranks of only five countries in the world—and the only one from the developing world—to produce jet airplanes (Artopoulos 2007). The 1976 dictatorship, moreover, spared its own holdings from the neoliberal stringencies it required of most other enterprises, further demonstrating the tenuous affinities it recognized even with regime supporters.

By the end of the dictatorship in 1983, its disastrous failures were numerous—human rights abuses, defeat in war, and mismanagement of the national economy as well as military-run enterprises. There was little dispute over ending the military enterprise model, though few expected the defense sector itself to be dismantled entirely.⁶ Virtually the entire defense and strategic sector was sold or liquidated, though some agencies were transferred to the provinces or the Ministry of Economics, including three modest armaments plants under Ministry of Economics control. Moreover, in the whirlwind neoliberal restructuring in the early 1990s, divestiture took place at firesale prices, netting only \$820 million—one-seventh of the total asset book value (Scheetz 2004, 27, 29). Ultimately, the industry, and the military that ran it almost singlehandedly, lost their champions—done in by their own inefficiencies, the policies of military rule, and a powerful new economic model.

Industrializers in Brazil

In comparison with Argentina, the Brazilian case reveals similarities in historical triggers and strategic purpose, but differences in coalitional opportunities. In Brazil, the military's strategic priorities were defined in events in the first decades of the twentieth century, which primed Brazilian military elites to concern over industrial and arms dependence. At a time when Brazil's state militias were dominant and a federal army barely existed, military missions to Europe exposed army officers to world-class technologies, organization, and cohesive doctrines. At the same time, World War I demonstrated Brazil's dependence on industrialized countries and opened discussion in the military, voiced frequently in journals like *A Defesa Nacional*, over the need for an indigenous industrial base (Hilton 1982; McCann 1984). Still, most officers remained laissez-faire advocates and preferred that Brazil strive for industrial development without direct military involvement (Hilton 1982, 643–44).

As in Argentina, such views changed in the global depression of the 1930s, which collapsed Brazil's export markets and brought a major balance of payments crisis that cut crucial imports like oil, industrial raw materials, and arms. Even more acutely than in Argentina, events of the 1930s in Brazil raised military alarm over the very real absence of defense capabilities. The 1932 São Paulo rebellion, which federal forces struggled to put down; the Chaco War of 1932–35, in which foreign interests stoked conflict among Brazil's neighbors in the pursuit of petroleum deposits; and the possibility that another world war would shut down industrial and arms imports all brought military elites to see state-led production as attractive (Hilton 1982, 643–44, 657–60).

Yet distinctive in Brazil were the civilian-military linkages the military itself was to forge. First among these was the Estado Novo itself—

the authoritarian statemaking project of Getúlio Vargas. As historian Frank McCann has found in a close reading of archival material surrounding the 1937 coup that inaugurated the *Estado Novo*, the army's top leaders, "Góes and Dutra were to give Vargas internal peace and security, and he would get them the arms and the modern industries that would support continued military development" (McCann 2006, 120). Thus military strategic prerogatives were the nucleus of the *Estado Novo*, which created the institutional infrastructure that enabled Brazil's industrial development over the next decades.

The military now played a direct role in the creation of new laws and state agencies intended to "nationalize" Brazilian production. Officer-engineers already held seats alongside private sector representatives on policymaking councils addressing industrial development and foreign trade, but now military plans for steel and petroleum industries could be fast-tracked. As in Argentina, military engineers took a leading role. For instance, Coronel Edmundo de Macedo Soares, the military's leading "steel technocrat," led negotiations that resulted in U.S. funding and construction of the Volta Redonda steelworks—majority state-owned and wholly Brazilian, as military leaders had wanted. Macedo Soares and other military engineers would hold its top management positions for decades (Baer 1969, 78), emphasizing transparency and close ties to private shareholders, as was to be typical in Brazil's mixed enterprises (Wirth 1970, 126–27).

Military-civilian industrial collaboration also involved ensuring that state assistance went to key private firms that contributed to defense production, as early as the 1940s and even in hard economic times (Hilton 1982, 671–72). Yet Brazil's military industrializers consciously fostered close ties with private firms also to promote those that could compete internationally and create linkages among national producers. An important means to achieve this was military education of civilian elites in strategic thinking and technical know-how. Military training programs in strategic studies, science, and engineering were open to civilians as early as the 1940s. By 1966, more than half of the graduates of the *Escola Superior de Guerra*, the highest academy for all the services, were civilian, educated in the strategic culture of the national security doctrine, which identified national development with security (Stepan 1973, 54).

The result was a broad, ESG-indoctrinated elite network of state bureaucrats, diplomats, and civilian industrialists (Payne 1994, 40). Similarly, military technical programs open to civilians contributed to the development of an indigenous technological base while also giving the military effective leverage over domestic private sector partners (Gouvea Neto 1991, 85). As late as the 1970s, a remarkable 80 percent of the graduates of the air force's sophisticated engineering college, the *Instituto Tecnológico de Aeronáutica (ITA)*, were civilians (Conca 1997, 41).

In the era of military rule (1964–85), these military-sponsored elite networks were enlisted in the expansion of the defense-industrial complex. The army was instrumental in turning a number of existing firms into defense producers, such as Engesa, which became Brazil's second-largest defense firm (after Embraer) until bankruptcy in 1990 due to the decline of its Middle East sales. Engesa made its mark assembling military trucks and armored vehicles that functioned well in Brazil's rough interior regions, making them also a prized export to other developing countries. Its products were generally low tech but economically appealing because they drew components from other domestic producers and had a positive impact on the expansion of related sectors.

In its start-up years, Engesa could rely on the inputs of engineering and testing at army research facilities, and on government tax benefits and major credits from state and private banks encouraged by the military regime (Conca 1997, 50–52; Lock 1986, 92). Differently organized was the state-controlled enterprise Embraer, the flagship aeronautics firm created in 1969. Yet also here the military guided the firm's development. Despite 90 percent shareholding by private investors, the air force retained control through designated seats on the board of directors. Underlying Embraer's commercial success were steady government contracts in the start-up years and important air force R&D inputs, including ITA-trained civilian engineers who populated most of Embraer's management and executive positions (Conca 1997, 41).

By the end of military rule, the debt crisis, international pressure, and the implosion of lucrative export markets marked the end of many defense industries. Still, the military retained a remarkable degree of control in the defense sector, particularly in oversight of R&D activities and science and technology policy (Conca 1997, 114; Acuña and Smith 1995, 144). In contrast to the Argentine situation, there was little public discussion of removing the military from the defense sector, largely because the military managed the political transition and could benefit from the absence of real elite resistance: the military-industrial developmentalist coalition had weakened, but it did not disappear, as in Argentina.⁷

Nation Builders in Cuba

On a very different path, Cuba's Fuerzas Armadas Revolucionarias (FAR) have often played an important supporting role in building the socialist economic order at the behest of the Communist Party leadership. The successor to the rebel army led by Che Guevara and the Castro brothers, the FAR was a core element in the state-party–military coalition that came to constitute the regime. In the early years of the revolution, the FAR was arguably the only reliable institution in terms of organization,

loyalty, and prestige for political leaders to enlist in economic development projects (Klepak 2005, 76).

FAR officers frequently assumed administrative posts to execute economic reform, manage agricultural or industrial enterprises, or simply help bring in the annual harvest. Yet the military's deepest impact on the economy came with the demise of the Cold War and decades of Soviet economic support. With a 35 to 50 percent contraction in the economy between 1989 and 1993, and real problems of widespread food scarcity and hunger, the very fabric of Cuban society and the future of the socialist regime were at stake. Providing "food and welfare" instead of violence as the means to ensure social unity was the clear preference of the FAR's longtime commander-in-chief, Raúl Castro (Amuchástegui 1999, 113). It had become Cuba's overwhelming strategic priority.

In response to the challenge, state leaders enlisted the military to reorganize and revitalize state-owned enterprises in key economic sectors. Already in the 1980s, Raúl Castro had instituted training expeditions for FAR officers to study business administration in Europe, with the goal of enhancing efficiency and flexibility in Cuba's state-owned enterprises. The resulting management model, *perfeccionamiento empresarial*, was tested at the Unión de Industrias Militares (UIM), the military's industrial conglomerate, where officers had for decades been cutting their administrative teeth.⁸

Designed originally to repair military hardware and supply spare parts and light arms, the UIM comprises 12 industries and more than 200 factories and companies. By the mid-1990s, the adoption of the new model had made most of the UIM's operations efficient and profitable (Mora 2004, 11). Producing for both its own needs and civilian consumption, about 30 percent of the UIM's output was serving civilian industry and consumers, including mechanical parts and repairs necessary for productivity across the economy (Klepak 2005, 80–81). It was also politically useful, in terms of encouraging political allegiance and cohesion, that UIM profits could be applied to improve living standards, like housing for thousands of its employees (Mora 2004, 11).

A more recent creation is Gaviota Enterprises, a set of nondefense businesses that are state-owned and military-administered, generally led by officers with a solid track record in business management and planning. Gaviota's longtime director is General Luis Pérez Róspide, whose background includes extensive experience running the dependable UIM. Gaviota comprises businesses centered on Cuba's \$2 billion annual tourism industry, including hotels, a domestic airline, nightclubs, shopping centers, marinas, and restaurants (Klepak 2005, 83). Gaviota employs about 25 percent of the military's troops and helps to provide about 30 percent of the military's budget (Mora 2004, 11).

Gaviota is the regime's star performer in securing state resources through the marketplace. The military is also involved in other activities that generate hard currency for the island, including running the country's hard currency stores. For many foreign investors conducting joint ventures in Cuba, military officers are the "point people."

Despite its pervasive role in Cuba's current economy, however, the military has never taken economic initiatives without approval from the political leadership. It is the regime's most loyal supporter, and remains part of a broader coalition dominated by a civilian political leadership that has strategically deployed the military as an effective state asset for reviving socialism. FAR officers have a reputation for diligence and modesty. Corruption is remarkably low.⁹ The military's "clean" history—absent the overt political intervention that was once a regular part of military behavior in much of the region, and absent a record of human rights violations—gives it domestic credence as an agent of the state. Since the 1990s, military officers have been a frequent source of economic planning advice for the regime in its efforts to renew its political and economic viability. They head key government ministries, such as sugar, communications, fisheries, and the merchant marine, and manage government agencies and banks (Klepak 2005, 85–86).

It is therefore no stretch to attribute Cuba's weathering of the post-Cold War 1990s to innovations of FAR-run enterprises that have politically legitimated greater economic openness in the economy without "sacrificing" the regime's ideology. These contributions have enhanced the military's political and social standing and have given it a stake in the gradual evolution of the system (Mora 2004, 11). While it remains extremely difficult to determine actual numbers for revenues or productivity in the absence of a transparent auditing system, Raúl Castro's rise to power means that the military entrepreneurship roles he recommended back in the 1980s are virtually assured to continue, not least because the alternative option of preventing social unrest with military violence has been unacceptable.¹⁰

Nation Builders in Ecuador

In Ecuador it was the military itself that initiated nation-building entrepreneurship in a social and political environment very different from 1990s Cuba. Ecuador's military had a history of promoting antioligarchic, proreform policies in each of its previous interventions. In the July Revolution of 1925, junior officers sought to build state institutions as a bulwark against the economic influence of the country's powerful banking class, creating the Banco Central; in the 1930s, the next military intervention brought the legalization of trade unions, state regulation of foreign investments, and the end of prohibitions on leftist parties. The mil-

itary government of 1963–66 pursued agrarian reform and industrial development (Conaghan 1988, 78). Yet it was the military government of 1972–76, led by General Guillermo Rodríguez Lara, that established the military's lasting role in the economy. A strong developmentalist faction had emerged in the military during the 1960s, which considered the military an essential protagonist in the economic development that was necessary for political stability and national security. This ideological consolidation within the military laid the groundwork for strategically prioritizing economic and social development.¹¹

The watershed discovery of petroleum in 1967 constituted the critical juncture that created a historic opportunity to transform the economy from its traditional agro-export enclave structure to a more diversified, industrialized one. Through state-led development, the 1972 regime sought to transform the economy to halt the damaging corruption of the national oligarchy and the profitable concessions they had made to foreign corporations in anticipation of the oil boom (Conaghan 1988, 79). What military leaders lacked in practical economic planning skills they made up for by relying on the expertise of the growing class of Ecuadorian technocrats, trained in the development models of the U.N. Economic Commission for Latin America (García Gallegos 2009).

Therefore the regime promptly introduced an economic plan based on the dual pillars of a major state-led expansion of domestic consumer industries, and an agrarian reform to promote both greater social equity and a consumer market necessary for industrialization. Reforms were financed through state control of petroleum refining, which also funded new state enterprises in a range of industrial and consumer industries. The industrial-consumer balance was mirrored in the industries the military itself came to control through the Dirección de Industrias de Ejército (DINE).

Created in 1973, DINE became a holding company for what grew to more than two dozen army-managed enterprises, producing everything from explosives and steel to bananas and real estate. In addition, the navy created its own commercial fleet the same year, and the air force expanded its existing commercial airline. It is significant that the military developed enterprises in precisely the sectors that private sector elites had targeted for their own involvement (e.g., industries favorable for development under the Andean Pact, a trade agreement signed in 1969) (Conaghan 1988, 87).

Conaghan describes these military enterprises as the regime's "most threatening organizational innovations" to the private sector, because they "appeared to preempt private-sector initiatives" (86). Until this point, the military had maintained only modest enterprises dedicated to supplying troops with basic necessities like food, uniforms, and light manufactured goods, generally directed by unit commanders (García Gallegos 2009).

As a result, the Ecuadorian business community began a strident campaign against the military's statism, which became so powerful that the regime's planners began to cede ground. Ultimately, the Rodríguez Lara reformists failed politically—they could not construct the multiclass coalition (including the popular sector and a modernizing bourgeoisie, which never materialized) that could have resisted the powerful conservative classes and their still-present allies in some military factions. In 1975, those elements rallied in a counter coup, ousting Rodríguez Lara and ending the reform era.

But although sweeping, military-led reformism disappeared, the military's influence in the economy did not. In the transition to democracy in 1979, the military secured lasting prerogatives, including representation in key administrative and advisory positions in the state, petroleum royalties dedicated to the defense budget, and the array of enterprises developed in the 1970s, which today are valued at an impressive \$100 million. Moreover, mirroring the extension of the military's political influence in the 1990s, the constitutionally enshrined scope of its role in the economy, first established in 1967, has expanded with each new constitution (1996 and 1998). Only the most recent constitution, promulgated under the reformist government of Rafael Correa in 2008, legally restricts the military to economic activities related to national defense. Still, the required divestiture of many of the military's holdings has proceeded slowly. A prolonged investigative auditing process still leaves the complex conglomerate DINE with several companies bearing no defense rationale.¹²

Current efforts to reduce the military's holdings are counteracted by other government decisions that keep the military involved in the economy. On the one hand, the Correa government has sought to establish institutionalized civilian control of the military, promoting legislation that will audit military holdings through the defense ministry and incorporate them formally into the defense budget. On the other hand, Correa has encouraged the military's participation in management tasks, arguably to serve national security interests; for instance, appointing senior navy officers to run state-owned Petroecuador as a way to root out corruption there. The current state of incomplete reform reflects both the general challenge of building a legal-rational state and the tenacity of the military in a situation in which, as civilian defense minister Javier Ponce describes it, "the problem of military sovereignty is at stake" (*El Universo* 2009).

Ecuador's military was able to establish its economic holdings with substantial autonomy, thanks to a historically dysfunctional civilian political elite and weak state institutions. It has maintained its businesses virtually unchecked, even as institutional self-interest has replaced the progressive ideology that originally legitimated their creation. The

resentment and competition in economic visions held, on the one hand, by a statist military and on the other by a fiercely pro-free enterprise business sector are nothing new—they date back at least to 1925. What is new in the last decades is the military's use of its economic holdings for development projects in indigenous communities. The unprecedented mobilization of these communities challenges both national unity and the military's arbiter role, as shown in the pivotal role of indigenous groups in the coup of 1999—the military high command eventually got the upper hand. The mobilization also serves to legitimate the military's traditional national development concerns. Thus the agro-businesses of DINE have been enlisted to produce for community development projects in the Amazon interior (García Gallegos 2009). In short, the military may yet find the popular support it would need to relegitimate its parochial interests as national ones.

CONCLUSIONS

The diverse paths taken by Latin America's military entrepreneurs are a reminder that not all trajectories lead to the same place. Several important challenges that military entrepreneurship poses for the construction of democratic civilian control of the armed forces were discussed in this article; this section highlights issues specific to contemporary industrializers and nation builders and identifies conclusions that follow from this study for policies to enhance democratic civilian control.

Industrializers Under Democratic Control

The era of military industrializers appears to be over. In general, this path of entrepreneurship was blocked by the liberal economic reforms of the 1990s, which profoundly reduced the role of the state in the economy and compelled greater efficiencies by opening domestic markets to international competition. Moreover, the resolution of historical rivalries and the advent of increased economic and political cooperation among the countries of the Southern Cone and Brazil have eliminated the mutual mistrust and strategic competition that drove their defense policies for much of the twentieth century. As a result, traditional statist-nationalist coalitions that military industrializers once championed dissolved and have not reappeared.

In the 2000s, a trend has appeared in Argentina and Brazil to revive defense industrial production, but now it is civilian leaders who are setting the terms for such projects (in Argentina) or who are aligned in their strategic outlook with mainstream elements in the military (in Brazil). Following Argentina's major turn away from its industrializer past, recent Peronist governments have directed the country on a more

statist economic path since the financial crisis of 2001. There is renewed official interest in charging the Defense Ministry with the task of “deepening and strengthening the development of industrial production,” as the 2009 National Defense Policy Directive notes (Argentina, Ministry of Defense 2009).

The statist turn has produced some important reversals of the privatization of defense industries that took place in the 1990s, notably shipbuilding and ship repair, and aircraft production at the renationalized Córdoba facility. Governing leaders see in these facilities the potential for a targeted industrial revival that can stimulate other industries and commercial exports. At this point, much is planned that has yet to be realized, including a deal worth \$500 million to build vessels for Venezuela’s state oil corporation, joint production of naval ships with Chile, an Embraer subsidiary at Córdoba to produce Brazilian-designed aircraft with Argentine labor, and shipbuilding and repair for Brazil’s expanding oil industry.

Yet the new state support of the defense sector is not a revival of past practices. Though state-owned, the defense sector enterprises remain modest and are accountable to the civilian-run Defense Ministry, not to the military services. Indeed, the official rationale for the state’s defense sector promotion is to reposition these enterprises to compete internationally: national economic growth, rather than revival of defense production for the military’s own use, is the primary goal.

In Brazil, there is more continuity—in thinking if not in organizational structure—regarding the continued influence of the military in the national strategic culture. The military’s formal involvement is now limited to its research facilities and the state-owned military firms like IMBEL, where active-duty officers participate as directors but in the minority alongside civilian counterparts. Yet the military continues to play an influential role in developing research and technology, in cooperation with private sector firms; for instance, for the country’s air defense radar system. The military services played an important consultative role in the development of the National Defense Strategy issued by the Defense Ministry in 2008. The strategy sets broad parameters for restructuring the military and the national defense industry with a view to 2030 (Brazil, Ministry of Defense 2008). It maintains long-held linkages between industry and economic development for national security, emphasizing in particular the need for acquiring sensitive technologies (e.g., nuclear, cybernetic); and it envisions support for defense production through cooperation with other South American producers. Coming on the heels of the discovery of major offshore oil reserves, the 2008 Strategy is part of a larger vision that links contemporary civilian and military elites in promoting long-held foreign policy goals updated for the twenty-first century (Bitencourt and Costa Vaz 2009).

Yet even with much military input, civilians have gained the upper hand in key defense-planning decisions; for instance, overriding the air force's preferences in a major fighter jet acquisition because the French manufacturer that the civilians preferred offered more attractive technology transfers and therefore greater technological autonomy (*O Globo* 2010). It seems that Brazil's civilian elites are now more determined champions of defense autonomy than ever before, a clear legacy of the country's midcentury military industrializers.

For the countries of the Southern Cone and Brazil, the current expansion of the defense sector (still modest by global standards) has important foreign policy goals. Joint design and production agreements among these countries offer ways to reduce production costs, to share technologies, and to cement diplomatic initiatives like military-to-military confidence building and regional cooperation on defense production. Although several South American countries (Chile, Ecuador, Peru, Venezuela) have made arms acquisitions, these do not come close to the scale of the defense production goals once pursued by the military industrializers of earlier decades.

What appears to be developing is a "pacific community," not across South America but in a subregion of it, encompassing the more stable democracies of the Southern Cone and Brazil, where militaries will still play a role in industrial production but under civilian direction, and where defense production is likely to become so interdependent that the unexpected, beneficial legacy of midcentury military industrializers is actually cooperation instead of conflict. Not least, these conditions—increased political stability, economic productivity, and militaries oriented toward confidence building and joint cooperation with neighbors—are likely to enhance the attractiveness of democratic civilian control for both political elites and the military.

Nation Builders with Potential Political Influence

In comparison, military nation building appears to be on the rise. In addition to the Correa-era dynamics discussed in the Ecuadorian case, military nation building is currently being encouraged by elected political leaders elsewhere. In Bolivia, Evo Morales has recently expanded the role of the military in social development and public service provision. As part of a larger project to restore the state to a leadership role in the postneoliberal economy, he has revived the armed forces' Corporation for National Development (Cofadena), ending decades of neoliberal government neglect of the military's formal development arm. Created in 1972 as a conglomerate of military-run enterprises intended to promote national economic development, Cofadena will once more coordinate enterprises "for the people"—assembling tractors,

drilling wells, and participating in the lucrative processing of lithium (ABI 2010).

A more haphazard project is underway in Venezuela, where Hugo Chávez has occasionally relied on the military to “step into” management and security positions in key sectors like petroleum; for instance, during the 2002 PDVSA strike. Though the Bolivian and Venezuelan cases differ in several important ways, both reflect the important potential of the military to assume a prominent role as development brokers, linking the state and previously marginalized social groups and thereby strengthening the appeal of political leaders’ national projects.

What is worrisome is the political clout this path can yield for the military in a democratic context. The military’s economic activities generally enhance its resource base, promoting greater autonomy from official budgetary controls, but it is the social support activities that can generate for the military important popular legitimacy. As a result, nation builders are better placed than industrializers to establish greater *de facto* autonomy from civilian control. In general, this situation undermines the crucial development of oversight institutions like effective defense ministries, unless political elites redouble efforts to strengthen such democratic institutional controls.

Policy Implications

Regarding the strengthening of democratic civilian control of the military, this study suggests three conclusions. First, the most opportune moments to restructure military economic involvement appear during periods of political, and especially economic change. Military entrepreneurship generally has tended to emerge and recede in such periods, which present a window of opportunity for both domestic and external actors to influence future outcomes. While such global transformative moments are rare and often difficult to manage, national-level transformations also merit attention, particularly if they reflect weakening domestic support for military entrepreneurship.

External actors (international organizations, foreign governments) may be particularly well placed to leverage such opportunities. The restoration of diplomatic ties and economic aid for post-coup Honduras was such an opportunity to press new political leaders on reforms to reduce the military’s pension-investment fiefdom. Yet instead, the opportunity appears to have been lost: in early 2010, the new government retired the general who carried out the coup at the behest of political opponents of the Zelaya government, then gave him the golden parachute of directing Hondutel, the state communications company—effectively returning it to the hands of the military that had run it in past decades.

The existence of domestic allies for the military's entrepreneurship activities is an important influence on the political viability of the military's economic project, but civil society can also be a linchpin for promoting reform. Military entrepreneurship can be particularly durable when national political and economic elites are either in agreement with it or too weak and divided to curtail it. In such conditions, promoting both democratic political capacity and the will to institute oversight of military economic activities is both important and challenging. Here, civil society can play a potentially important role as a counterweight to the military-political-economic elite nexus: where domestic opportunities for civil society groups are limited, they can leverage their influence through association with external actors, reversing the initiative just discussed above (Keck and Sikkink 1998). Moreover, enhancing the capacity of state agencies to regulate economic activity and promote greater transparency can help to inform and potentially mobilize civil society to demand greater accountability from military and political elites, reinforcing and potentially locking in reforms.

The constructive or destructive impact of military entrepreneurship is closely tied to the existence of democratic civilian control. It is important to acknowledge that military entrepreneurship is not an absolutely negative development. In some forms, it has helped move countries toward economic development that was unlikely to occur otherwise at the time. However, it should be eliminated in the initial process of democratization when democratic authority over the military is generally most fragile.

Military entrepreneurship is likely to be most constructive once the armed forces are clearly accountable to a democratic leadership that can monitor and incentivize its activities; it is least beneficial to the public interest when the military is strongly autonomous or beholden to powerful private interests. If strengthening democracy is a goal, then military entrepreneurship is appropriate only when democratic civilian control is firmly in place. Even so, under these conditions, political leaders must be resolute in maintaining their surveillance of the military's economic activities, and civil society must be resolute in overseeing both the politicians and the soldiers. Otherwise the detrimental forms of autonomy, privilege, and power that can accompany military entrepreneurship are likely to reappear.

Ultimately, to assess the implications of military entrepreneurship, we should base the analysis on a careful examination of the factors in the military that motivated its economic activities, but we should also pay close attention to the societal and political dynamics that enabled it. Implementing effective policy responses to diminish the negative consequences of military entrepreneurship may prove difficult to achieve without firm and consistent pressure. The best remedies—democrati-

cally accountable political leaders, an effective and autonomous state bureaucracy, and the reduction of social and economic problems that historically have enabled the military's role in the economy—are rarely created in the short term.

NOTES

I thank Sam Fitch and Maiah Jaskoski, as well as the *LAPS* editor and five anonymous reviewers, for their valuable comments and insights.

1. Under democratic civilian control, the armed forces are constitutionally accountable to a democratically elected legislature and executive, which set legal guidelines for their conduct and oversee such conduct through an institutional framework (e.g., a civilian-led defense ministry). Civilian authorities have control over defense budgets and defense policy, and have oversight of the military's professional training, education, promotion policies, and military doctrine. See Fitch 1998, 172; Diamint 1999, 29–30.

2. Military entrepreneurship is generally licit, though not necessarily transparent or just. By contrast, individual military officers might engage in illegal economic activities, and militaries might even be pervasively corrupt, but this does not constitute military entrepreneurship as defined here.

3. Research in defense economics has attended more persistently to such issues. There is also a rich cross-regional literature on defense industries that includes Latin American cases, including Brzoska and Ohlson 1986; Brauer and Dunne 2004.

4. Exceptions include Acuña and Smith 1995, comparing Southern Cone cases; Brenes and Casas 1998, comparing Central American cases; and several newer studies that make cross-regional comparisons (Brömelhörster and Paes 2004; Mani 2007).

5. Most of these industrial advocates were army engineers who had trained in specialties like metallurgy and aviation at European engineering schools, of which none existed in Argentina at the time. They included Generals Enrique Mosconi and Alonso Baldrich in petroleum, Major Francisco de Arteaga and Brigadier Juan Ignacio San Martín in aviation, General (and President) Agustín P. Justo sponsoring the national highway system, General Manuel Savio promoting steel and defense industries and founding the military's technical academy, and General Juan Pistarini, who became Juan Perón's public works minister and constructed the country's first international airport in 1949, Latin America's largest at the time.

6. See, e.g., conclusions in Millán (1986, 50) and Acuña and Smith (1995, 135).

7. Stepan (1985, 335) notes that industrialists' discontent at the end of the regime was with increasing state regulation, not with the developmentalist model the military had pursued.

8. For a discussion and useful bibliography on the "business perfection" model, see Marquetti Nodarse 2003.

9. Klepak (2005, 85) notes that FAR officers involved in Gaviota, and particularly in the hard currency stores, can secure favorable access to exceptional goods like refrigerators and televisions, which they can purchase with Cuban

pesos rather than U.S. dollars. Perks like these are legitimate, however, and corruption at an egregious level appears uncommon. However, see Mora (2004, 14) for references that would dispute the claim.

10. For discussion of the internal debates on the repression option, see Amuchástegui 1999, 113; Klepak 2005, 56–58.

11. It was also aided by remarkably good relations between Ecuador and its archrival, Peru, where an ideologically kindred reformist military regime took power in 1968; the late 1960s through 1976 marked a period of détente based on diplomacy and increased trade relations (Mares 2001, 166).

12. The nine DINE-controlled companies remain a diverse collection, including steel, clothing and military uniforms, industrial explosives, firearms, electrical energy, private security, real estate, banana farms, and ranching. DINE also has minority participation in six other enterprises of a similarly broad nature. See DINE n.d.

REFERENCES

- Acuña. Carlos H., and William C. Smith. 1995. The Politics of “Military Economics” in the Southern Cone. *Political Power and Social Theory* 9: 121–57.
- Agencia Boliviana de Información (ABI). 2010. Cofadena vuelve a la vida. June 13. www.lostiempos.com/diario/actualidad/economia/20100613/cofadena-vuelve-a-la-vida_75436_140756.html. Accessed June 28, 2011.
- Amuchástegui, Domingo. 1999. Cuba’s Armed Forces: Power and Reforms. *Cuba in Transition*, 9. Papers and Proceedings of the 9th Annual Meeting of the Association for the Study of the Cuban Economy, Coral Gables, August 12–14.
- Arceneaux, Craig, and David Pion-Berlin. 2000. Decision-Makers or Decision-Takers? Military Missions and Civilian Control in Democratic South America. *Armed Forces and Society* 26, 3: 413–36.
- Argentina. Ministry of Defense. 2009. *Approval of the National Defense Policy Directive* (Decree Law 1714/2009). www.resdal.org/ultimos-documentos/decreto-1714.pdf. Accessed June 28, 2011.
- Artopoulos, Alejandro. 2007. *Emprendedores tecnológicos en la industria aeronáutica latinoamericana*. Paper presented at the V Coloquio Anual de Historia de Empresas, Universidad de San Andrés, March 29.
- Baer, Werner. 1969. *The Development of the Brazilian Steel Industry*. Nashville: Vanderbilt University Press.
- Bitencourt, Luis, and Alcides Costa Vaz. 2009. Brazilian Strategic Culture. Report of working group. Applied Research Center, Florida International University, Miami. November. http://quotha.net/docs/FIU-SOUTHCOM/11.9.FIU-SOUTHCOM_Brasil.pdf
- Bolpress. 2008. Comenzarán a pagar la Renta Dignidad el 1 de febrero. January 11. www.bolpress.com/art.php?Cod=2008011112. Accessed Jun 28, 2011.
- Brauer, Jurgen, and J. Paul Dunne. 2004. *Arms Trade and Economic Development*. New York: Routledge.
- Brazil. Ministry of Defense. 2008. *Estratégia nacional da defesa*. December 17. www.exercito.gov.br/05notic/paineis/2008/12dez/img/defesa.pdf. Accessed June 28, 2011.

- Brenes, Arnaldo, and Kevin Casas, eds. 1998. *Soldiers as Businessmen: The Economic Activities of Central America's Militaries*. San José, Costa Rica: Fundación Arias para la Paz y el Progreso Humano.
- Brömmelhörster, Jörn, and Wolf-Christian Paes. 2004. *The Military as an Economic Actor: Soldiers in Business*. Gordonsville, VA: Palgrave Macmillan.
- Brzoska, Michael, and Thomas Ohlson, eds. 1986. *Arms Production in the Third World*. London: Taylor and Francis.
- Centeno, Miguel Angel. 2002. *Blood and Debt: War and the Nation-State in Latin America*. University Park: Pennsylvania State University Press.
- . 2007. The Reinvention of Latin American Militaries. *Americas Quarterly* 1, 2: 73–80.
- Collier, Ruth Berins, and David Collier. 1991. *Shaping the Political Arena: Critical Junctures, the Labor Movement, and Regime Dynamics in Latin America*. Princeton: Princeton University Press.
- Conaghan, Catherine M. 1988. *Restructuring Domination: Industrialists and the State in Ecuador*. Pittsburgh: University of Pittsburgh Press.
- Conca, Ken. 1997. *Manufacturing Insecurity: The Rise and Fall of Brazil's Military-Industrial Complex*. Boulder: Lynne Rienner.
- Cruz, Consuelo, and Rut Diamint. 1998. The New Military Autonomy. *Journal of Democracy* 9, 4: 115–27.
- Dagnino, Renato P. 1988. Cuando negocios no son negocios. Los aviones de guerra del Brasil. *Nueva Sociedad* 97: 178–87.
- Diamint, Rut, ed. 1999. *Control civil y fuerzas armadas en las nuevas democracias latinoamericanas*. Buenos Aires: GEL.
- Dirección de Industrias de Ejército (DINE). n.d. www.holdingdine.com. Informational website. Accessed June 24, 2010.
- Donadio, Marcela. 2007. Seguridad Nacional, Inc. *Americas Quarterly* 1, 2: 84–88.
- Fitch, J. Samuel. 1998. *The Armed Forces and Democracy in Latin America*. Baltimore: Johns Hopkins University Press.
- García Gallegos, Bertha. 2004. Transparencia del presupuesto de defensa en Ecuador. Working Paper. Buenos Aires: RESDAL Proyecto Transparencia. www.resdal.org/presupuestos/caso-ecuador.pdf.
- . 2009. *Corporativismo militar: entre la politización, la privatización y la cooptación política*. Paper presented at the 28th International Congress of the Latin American Studies Association, Rio de Janeiro, September 5–8.
- O Globo* (Rio de Janeiro). 2010. Jobim diz que FAB prefere caça francês Rafale. April 7.
- Goodman, Louis W. 1996. Military Roles Past and Present. In *Civil-Military Relations and Democracy*, ed. Larry Diamond and Marc F. Plattner. Baltimore: Johns Hopkins University Press. 30–43.
- Gouvea Neto, Raul de. 1991. How Brazil Competes in the Global Defense Industry. *Latin American Research Review* 26, 3: 83–107.
- Gumbel, Peter. 2008. Turkey's Warren Buffett Looks West. *Fortune*, February 20.
- Harrison, Selig S. 2002. Why Musharraf Clings to Power. *International Herald Tribune*, May 10.
- Hendrickson, Dylan, and Nicole Ball. 2002. Off-Budget Military Expenditure and Revenue: Issues and Policy Perspectives for Donors. Conflict, Security and

- Development Group Occasional Papers no. 1. London: International Policy Institute, King's College.
- Hilton, Stanley E. 1982. The Armed Forces and Industrialists in Modern Brazil: The Drive for Military Autonomy (1889–1954). *Hispanic American Historical Review* 62, 4: 629–73.
- Human Rights Watch. 2006. *Too High a Price: The Human Rights Cost of the Indonesian Military's Economic Activities*. New York: Human Rights Watch.
- Huntington, Samuel P. 1957. *The Soldier and the State: The Theory and Politics of Civil-Military Relations*. Cambridge: Harvard University Press.
- Katz, James Everett, ed. 1984. *Arms Production in Developing Countries*. Lexington: D. C. Heath.
- Keck, Margaret E., and Kathryn Sikkink. 1998. *Activists Without Borders: Advocacy Networks in International Politics*. Ithaca: Cornell University Press.
- Klepak, Hal. 2005. *Cuba's Military, 1990–2005: Revolutionary Soldiers During Counter-Revolutionary Times*. New York: Palgrave MacMillan.
- Latin American Weekly Report*. 1979. Argentina: Taking Up Arms Against the Free Market. 79, 5 (November 30): 56–57.
- Leff, Nathaniel H. 1968. *Economic Policy Making and Development in Brazil, 1947–1964*. New York: Wiley.
- Linz, Juan J., and Alfred Stepan. 1996. *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe*. Baltimore: Johns Hopkins University Press.
- Lock, Peter. 1986. Brazil: Arms for Export. In Brzoska and Ohlson 1986. 79–104.
- López, Ernesto. 1988. La industria militar argentina. *Nueva Sociedad* 97: 168–77.
- Mani, Kristina. 2007. Militaries in Business: State-Making and Entrepreneurship in the Developing World. *Armed Forces and Society* 33, 4: 591–611.
- Mares, David. 2001. *Violent Peace: Militarized Interstate Bargaining in Latin America*. New York: Columbia University Press.
- Marquetti Nodarse, Hiram. 2003. Análisis de las transformaciones en el sistema empresarial cubano. *Forum Empresarial* 8, 1: 3–42.
- McCann, Frank D. 1984. The Formative Period of Twentieth-Century Brazilian Army Thought, 1900–1922. *Hispanic American Historical Review* 64, 4: 737–65.
- . 2006. The Military and the Dictatorship: Getúlio, Góes, and Dutra. In *Vargas and Brazil: New Perspectives*, ed. Jens R. Hentschke. New York: Palgrave Macmillan. 109–41.
- Millán, Victor. 1986. Argentina: Schemes for Glory. In Brzoska and Ohlson 1986. 35–54.
- Mora, Frank O. 2004. The FAR and Its Economic Role: From Civic to Technocrat-Soldier. Occasional Paper series. Coral Gables: Institute for Cuban and Cuban-American Studies, University of Miami. June.
- Morales Domínguez, Esteban. 1973. El complejo militar industrial y algunas consecuencias generales de su acción. *Economía y Desarrollo* 74: 131–71.
- Mulvenon, James. 2001. *Soldiers of Fortune: The Rise and Fall of the Chinese Military-Business Complex, 1978–98*. Armonk: M. E. Sharpe.
- Neuman, Stephanie G. 1984. International Stratification and Third World Military Industries. *International Organization* 38, 1: 167–97.

- Norden, Deborah. 1996. Redefining Political-Military Relations in Latin America: Issues of the New Democratic Era. *Armed Forces and Society* 22, 3: 419–40.
- Nunn, Frederick M. 1983. *Yesterday's Soldiers: European Military Professionalism in South America, 1890–1940*. Lincoln: University of Nebraska Press.
- Ortiz, Cecilia. 2006. La influencia militar en la construcción política del indio ecuatoriano en el siglo XX. *Iconos* 26: 73–84.
- Payne, Leigh. 1994. *Brazilian Industrialists and Democratic Change*. Baltimore: Johns Hopkins University Press.
- Pion-Berlin, David. 2009. Defense Organization and Civil Military Relations in Latin America. *Armed Forces and Society* 35, 3: 562–86.
- Potash, Robert A. 1969. *The Army and Politics in Argentina, 1928–1945: Yrigoyen to Perón*. Stanford: Stanford University Press.
- Resende-Santos, João. 2007. *Neorealism, States, and the Modern Mass Army*. New York: Cambridge University Press.
- Rial, Juan. 1996. Armies and Civil Society in Latin America. In *Civil-Military Relations and Democracy*, ed. Larry Diamond and Marc F. Plattner. Baltimore: Johns Hopkins University Press. 47–65.
- Rosen, Stephen Peter. 1991. *Winning the Next War: Innovation and the Modern Military*. Ithaca: Cornell University Press.
- Rouquié, Alain. 1987. *The Military and the State in Latin America*. Berkeley: University of California Press.
- Scheetz, Thomas. 2004. Military Business in Argentina. In Brömmelhörster and Paes 2004. 18–31.
- Schumpeter, Joseph A. 1983 [1934]. *The Theory of Economic Development*. New Brunswick: Transaction.
- Shimshoni, Jonathan. 1990–91. Military Advantage and World War I: A Case for Military Entrepreneurship. *International Security* 15, 3: 187–215.
- Smith, Merritt Roe, ed. 1985. *Military Enterprise and Technological Change: Perspectives on the American Experience*. Cambridge: MIT Press.
- Snyder, Jack. 1984. *The Ideology of the Offensive: Military Decision Making and the Disasters of 1914*. Ithaca: Cornell University Press.
- Solberg, Carl E. 1979. *Oil and Nationalism in Argentina: A History*. Stanford: Stanford University Press.
- . 1982. Entrepreneurship in Public Enterprise: General Enrique Mosconi and the Argentine Petroleum Industry. *Business History Review* 56, 3: 380–99.
- Solingen, Etel. 1998. Growth and Decline of the Military-Industrial Complex: The Cases of Argentina and Brazil. *International Politics* 35: 31–47.
- Stepan, Alfred. 1988. *Rethinking Military Politics: Brazil and the Southern Cone*. Princeton: Princeton University Press.
- Stepan, Alfred, ed. 1973. *Authoritarian Brazil: Origins, Policies, and Future*. New Haven: Yale University Press.
- . 1985. State Power in the Southern Cone of Latin America. In *Bringing the State Back In*, ed. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol. Cambridge: Cambridge University Press. 317–43.
- Thelen, Kathleen, and Sven Steinmo. 1992. Historical Institutionalism in Comparative Politics. In *Structuring Politics: Historical Institutionalism in Comparative Analysis*, ed. Steinmo, Thelen, and Frank Longstreth. Cambridge: Cambridge University Press. 1–32.

- El Universo* (Guayaquil). 2009. Militares controlarán firmas pese a restricción. January 5.
- Varas, Augusto, ed. 1985. *Militarization and the International Arms Race in Latin America*. Boulder: Westview Press.
- . 1989. *Democracy Under Siege: New Military Power in Latin America*. New York: Greenwood Press.
- Wionczek, Miguel S. 1985. Industrias militares y el proceso de subdesarrollo. *Comercio Exterior* 35, 3: 205–11.
- Wirth, John D. 1970. *The Politics of Brazilian Development, 1930–1954*. Stanford: Stanford University Press.