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**The Fall and Rise of the Market:
Political Economy in Sandinista Nicaragua**

by

Phil Ryan, B.A., M.A.

**A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for the degree of
Doctor of Philosophy
Department of Political Science**

Carleton University

Ottawa, Ontario

July 19, 1992

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THE FALL AND RISE OF THE MARKET: POLITICAL
ECONOMY IN SANDINISTA NICARAGUA

submitted by

Philip Ryan, B.A., M.A.

in partial fulfilment of the requirements
for the degree of Doctor of Philosophy

Chair, Department of Political Science

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August 28, 1992

Abstract

The thesis concerns the political economy of Sandinista Nicaragua. The thesis examines the ideological development of the Sandinistas and the manner in which their initial ideological outlook interacted with a variety of domestic and international constraints to generate a strategy of wide-reaching social change -- political, economic, and ideological --, upon taking power in 1979. The "assault on the market" is used as an organizing theme to examine Sandinista strategy in such areas as state organization, agrarian reform, and relations with the private sector. The thesis also explores the contradictions and tensions generated by policies, and by the interaction of these policies with constraints such as war and external debt. Many of the dilemmas that emerged during the Sandinista experience are related to those that other socialist countries have faced.

Acknowledgements

I would like to thank my thesis supervisor, Professor Lynn Mytelka. She was always encouraging, and her comments on various drafts of this thesis unfailingly helped me sharpen the argument.

I would also like to thank the other members of my thesis committee, Professors Laura Macdonald and Manfred Bienefeld. Their constructive criticism was greatly appreciated.

The support of the Social Sciences and Humanities Research Council, without which this thesis would not have been possible, is gratefully acknowledged.

Finally, I would like to thank Beth Woroniuk. Our discussions over the past decade, both in Managua and here in Ottawa, have done as much as anything to deepen my understanding of the Sandinista experience. Her comments on the drafts of the thesis were of great value. Above all, her constant support, and the patience and good humour with which she bore the unenviable burden of living with a doctoral student, made the writing of this thesis possible, and, dare I say it, enjoyable.

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Acronyms used in the text

APP	Area Propiedad del Pueblo	Statized sector of the economy
ATC	Asociación de Trabajadores del Campo	FSLN's Rural Workers' Union
CACM	Central American Common Market	
CAT	Centro de Abastecimiento de los Trabajadores	Official stores for salaried workers
CMEA	Council for Mutual Economic Assistance	
CONAPRO-HM	Confederación Nacional de Asociaciones Profesionales, Héroes y Mártires	FSLN's umbrella organization for professionals
COSEP	Consejo Superior de la Empresa Privada	Main bourgeois umbrella organization
CST	Central Sandinista de Trabajadores	FSLN's main trade-union federation
ENABAS	Empresa Nicaragüense de Alimentos Básicos	State grain trading organization.
INEC	Instituto Nicaragüense de Estadísticas y Censos	Main state statistical bureau
MICOIN	Ministerio de Comercio Interior	Ministry for Internal Trade
MIDINRA	Ministerio de Desarrollo Agropecuario e Instituto Nicaragüense de la Reforma Agraria	Super-ministry of agriculture and agrarian reform
MIPLAN	Ministerio de Planificación	Ministry of Planning
SNOTS	Sistema de Normación y Organización del Trabajo y Salario	National wage scale and job classification system
SPP	Secretaría de Planificación y Presupuesto	Secretariat for Planning and Budgetting (replaces MIPLAN)
UNAG	Unión Nacional de Agricultores y Ganaderos	FSLN's Organization of farmers and ranchers
UNO	Unión Nacional Opositora	Opposition coalition in 1990 election.

The FSLN Leadership: Basic Information

The nine members of the National Directorate are presented in the order in which they entered the FSLN. This order of precedence was respected at all formal occasions. Thus, Borge would enter first, Carrión last.

"Tendency" refers to the mid-1970 division of the FSLN to which the individual belonged. "GPP," is the "Guerra Popular Prolongada," or "Prolonged Popular War" tendency; "Proletarian" is the Proletarian Tendency; and "Insurrec." is the "Insurreccional" tendency, often termed the "Tendencia Tercerista." For more information on the tendencies, see chapter 3.

	Tendency	Post-1979 responsibilities
Tomás Borge	GPP	Minister of the Interior, responsible for police and state security
Victor Tirado	Insurrec.	FSLN liaison with most mass organizations, especially unions
Daniel Ortega	Insurrec.	State executive: head of Junta of National Reconstruction until 1984; President thereafter
Humberto Ortega	Insurrec.	Minister of Defence
Henry Ruiz	GPP	Minister of Planning until 1984; Minister for External Cooperation thereafter
Jaime Wheelock	Proletarian	Minister for Agriculture and Agrarian Reform
Bayardo Arce	GPP	Party responsibilities, including the FSLN's international relations
Carlos Nuñez	Proletarian	Leader of the FSLN delegation to the Council of State [to 1984] and to the National Assembly [thereafter]
Luis Carrión	Proletarian	Vice-Minister of the Interior to 1987; Minister for Industry and Commerce thereafter

Units of Measure

Though for data on land, crop yields, etc., I have used the hectare as the unit of land area, some direct quotes refer to the "*manzana*." This is the traditional measure of land area in Nicaragua. It is equal to approximately 0.7 hectares.

All references to dollars denote \$U.S.

Ch.1: Introduction

A warm Sunday afternoon, January 1987. I am doing guard duty with Don Andrés, on a hill overlooking *La Sorpresa*, a state farm with some 140 hectares of good coffee land, about 60 kilometres north-east from the departmental capital of Jinotega. Perhaps to avenge its former owner, an officer of Somoza's National Guard, the farm has been destroyed twice by the contra, in 1983 and 1985. Outside the door of the hut in which we sleep there is a simple wooden cross, in memory of sixteen coffee pickers murdered during the 1985 attack.

Today, though, the farm is quiet below us: people are reading, chatting, or cleaning their rifles. Everyone enjoys the week's one half-day of rest, renewing their energies for the next set of twelve-hour days of coffee picking. In the distance the sun reflects off the sheer white rocks of *Peñas Blancas*, an area that in previous years was the scene of constant fighting.

Don Andrés elbows me: "There are people climbing that hill over there." I strain my eyes at the hill, about a kilometre away, but see nothing. "Don't you see, that fellow in the white shirt just there". Eventually I make out a white speck moving up the hill.

Don Andrés is from this area, and has lived most of his life here. He now works as a gardener in Managua, but promises to return to the mountains as soon as the war is over. "Life can be beautiful here, when you don't have to carry a rifle around everywhere, by all these bullets, watch every step for mines." And he knows these mountains:

Never our squad has to come down a mountain at four in the morning after a night of guard duty I place myself right behind him and keep my eyes fixed on his knapsack, which is the only thing I can pick out in the dark. He never falls, and always manages to pick out the obstacles and warn me. No one in my squad knows how old Don Andrés is. He seems old, so we call him "Don" out of respect, but I suspect that this is only because he has lost most of his teeth.

The situation here says much about the subtle ways the United States-organized contra war undermined the Nicaraguan economy. We have come from Managua to pick

coffee because many of those who have traditionally done so have gone to war. We are not terribly good at the task: most of us are confirmed urbanites, bureaucrats in various government ministries, and our energies are sapped by the hours of nocturnal guard duty. Even if we were master coffee pickers, yields would be down, because, like the traditional coffee pickers, many of those who used to tend the coffee plants between harvests have gone to war.

This is a first simple truth about Nicaragua: the United States proxy war ground this country into the dust. There were spectacular acts of aggression, such as the attack on Corinto, the country's main port, in late 1983, or the mining of that same port in 1984. But the more common pattern was one of "low intensity" mayhem: attacks on state farms and cooperatives, the murder of rural teachers, health care workers, agricultural extension specialists.

But there is a second truth about Nicaragua, one which those of us who supported the Sandinista revolution find more uncomfortable. Listen again to Don Andrés:

Look, here you have to take sides. But I tell you, things were better before. The peasant today is really screwed. Before you could work hard, go into a store, and say "Give me sugar." And you could buy as much as you wanted. "Give me batteries," and there was none of this crap about "We can only sell you two." A man would work hard, and he could sell his crop to anyone he wanted, buy from anyone he wanted, buy whatever he wanted. He didn't have to travel miles to buy and sell.

One can judge this lament however one wishes. One might feel that the freedoms whose loss he mourns were empty, that the freedom to buy "as much as you wanted" was the freedom to buy only as much as your miserable earnings allowed, that freedom of commerce was but the freedom to be ripped off coming and going by merchants who sold the fruits of the peasant's labour five times dearer in Managua and gave him goods in return at ten times their real value.

This may well be true, but it is also, at the moment, irrelevant. Don Andrés feels what he feels, his lived experience has made him sceptical of socialist critiques of market freedom, and thousands of Nicaraguan peasants feel more or less the same way as he does. This is a second simple truth about Nicaragua: the Sandinista project made its contribution

to the country's crisis. It alienated a good many people -- peasants and others -- and it fostered severe economic difficulties.

Our third simple truth is that the first two truths are intimately related. For reasons I cannot quite understand, Don Andrés is here beside me, guarding the state farm. But many people who think much like him are in the mountains around us, carrying guns for the other side. If the farm is attacked, it will be attacked not by the "mercenaries" and "beasts" depicted by the Sandinista media, nor by the "freedom fighters" hailed by Reagan, but by peasants. "Cannon fodder"? Definitely. "Manipulated"? To an extreme. But not without their motives. If the United States provided the material resources for the contra, Sandinista policy helped generate a social base from which the contra could draw human resources. In addition, much government policy helped intensify the economic impact of the war.

After the electoral defeat of the Sandinista Front for National Liberation [FSLN] in February 1990, much debate among sympathizers of the Nicaraguan revolution would revolve around the relative importance of these three simple truths. Thus, Argentine observer Carlos Vilas commented that

We have to recognize that the revolutionary process got stuck in its own internal tensions and ambiguities long before the Sandinistas were defeated at the polls. By then, the rank and file were already weakened and demobilized (1990b, 18).

Vilas added that

The free and secret ballot became for many voters a means for repudiating specific aspects of the Sandinista administration that were personally irritating: the over-bearing bureaucrat; the illicit enrichment of a Sandinista neighbour; the boss' sexual harassment; the lack of textbooks in the schools while novels, declarations, and speeches by the leaders abounded; dilapidated public buses alongside the manager's air-conditioned car (Ibid., 15).

Vilas' remarks were angrily dismissed by two United States supporters of the Sandinistas:

the FSLN and the Nicaraguan revolution were the victims in an unequal battle with the United States. Vilas' search for "What Went Wrong?" essentially boils down to a "blame the victim" argument. Precisely "what went wrong" is that Nicaragua was forced into the boxing ring with an opponent many times its material and military strength (Norsworthy and Robi 1990).

The debate might be seen as a reflection upon one of Marx's oft-quoted phrases: were the Sandinistas brought low by "circumstances not of their choosing," or by the way they sought to "make history"? What must be added to Marx's dictum is that some of the circumstances not of the Sandinistas' choosing were nevertheless of their making¹.

A. Focus of the thesis

I lived and worked in Nicaragua from mid-1983 to the beginning of 1988. I taught in the Faculty of Economics of the National Autonomous University of Nicaragua, and in 1986 I moved to Nicaragua's planning ministry, by that point called the Secretariat for Planning and Budgeting. It was clear to all working in the Secretariat at that point that Nicaragua was trapped in a crisis from which there was no obvious means of escape. Because I was working in an economic ministry, rather than one concerned with defence or foreign relations, a constant theme of discussion was how government policies were implicated in this crisis.

This background explains the general orientation of this thesis, which will primarily focus on the second of our three "simple truths." The thesis will examine the contradictions and dilemmas generated by the political and economic project of the FSLN. The thesis draws freely upon hindsight: many of the points made here were by no means clear to me when I was working in Nicaragua.

In choosing this focus, no claim is being made regarding the relative weights of "internal" and "external" factors in the Nicaraguan crisis. The choice of focus is not motivated by any desire to "blame the victim," but by the belief that it is simplistic to view the Sandinistas as purely passive "victims" of United States policy. The Sandinistas did, after all, succeed in capturing state power, and held that power for a decade. Though they finally lost the government in 1990, their domestic support remained intact to a

¹One of Camus' characters says that "after forty, a person is responsible for his face." I am arguing here that after a few years in power decision-makers are responsible for at least part of the "history" that "weighs like a nightmare" upon them.

surprising degree. As holders of state power, the Sandinistas were "responsible" for everything that happened in Nicaragua during the 1980s, not in the sense that they were to "blame" for everything, but in the Sartrean sense of responsibility: Nicaragua, with all its constraints, represented a situation which the Sandinistas had to confront, a situation which demanded choices and actions of them². It is upon these choices and actions that this thesis will focus. Specifically, I will examine the Sandinistas' economic project and its political ramifications. Hence some aspects of the Sandinistas' political project -- their view of legislative power, or their understanding of the state's relation to civil society, for example -- will be considered only in passing.

At the same time, the thesis will pay some attention to the other two "simple truths." Chapters six through eight will examine the impact of the contra war, and the interaction of the external and the internal. The Sandinistas' problematic relation with the peasantry, for example, would have played itself out in an entirely different fashion in the absence of the contra.

The thesis pursues two main lines of argument. First, I will argue that the Sandinistas sought to do much more than merely take and hold state power. Their choices and actions, particularly in their initial period in power, are therefore explicable in the light of their broad project of social transformation. This vision of transformation was heavily influenced by a relatively orthodox Marxism³. Second, I will argue that the Sandinistas' project of social transformation contributed to the severe economic crisis which Nicaragua suffered from the mid-1980s on. Despite the Sandinistas' attempts to modify their economic and political policies after 1984, they never escaped constraints

²"[M]an being condemned to be free carries the weight of the whole world on his shoulders; he is responsible for the world and for himself as a way of being" (Sartre 1966, 707).

³By "orthodox Marxism" I mean the orthodoxy traditionally promoted by the Soviet Union, and periodically codified in such manuals as the various editions of Political Economy issued by Progress Publishers. This orthodoxy is often termed "Marxist-Leninism," though its relation to the actual thought of Marx or Lenin has been the subject of endless debate.

that developed in part from of their early policy choices.

Before expanding upon these two arguments, a caveat must be issued. There is an inherent problem in trying to summarize the results of one's investigations in the form of "hypotheses": the exercise often leads one to posit simple cause-effect relations. But the point of this thesis is not to establish a simple causal relation: I am not arguing that Sandinista Marxism caused the failure of the Nicaraguan revolution, or that initial policy choices caused all the problems that followed. Once again, the thesis is exploring one of the three "simple truths" presented at the outset.

Thus, the objective of the thesis is not to establish simple causality but to explore the implications of Sandinista decisions and some of the dilemmas inherent in a Third World socialist project of the type they pursued. This task has to a large extent been ignored by North American writers. As I will argue in chapter three, English-language writings on the revolution have tended to reflect a polarization between supporters of the revolution who generally minimized Sandinista Marxism, and opponents who relied on the demonization of Marxism in order to condemn the Sandinistas and justify the contra war.

My approach, on the other hand, has been to take Sandinista Marxism seriously, and to enquire of the difficulties that emerge in the attempt to apply a certain vision of socialism in a country such as Nicaragua. I take this approach, not because I want to demonstrate the impossibility of Third World socialism, but because I am a socialist concerned with the viability of socialism in the world, and I believe that this viability cannot be attained without a serious critique of twentieth century socialist experiences.

To expand upon the first of our two arguments, we may begin by letting the Sandinista leadership speak for itself. In its 1991 report to the FSLN's first party congress, the party's National Directorate proclaimed that "We define the FSLN as the vanguard detachment, which creatively applies Marxist-Leninist principles" (Dirección Nacional 1991, 10). Recapitulating the history of the movement, the Directorate recalled that "the revolutionary option advocated the overthrow of the Somocista dictatorship, as the starting point for a deeper change, leading to a socialist process" (Dirección Nacional

1991, 6). The Directorate went on to note that:

At the beginning of the 1980s, in the Theses of the FSLN, we focused on the triumph of the Sandinista Revolution, in an epoch characterized by the transition from capitalism to socialism, which was a world historical tendency.

We affirmed that our cause was that of SOCIALISM [sic] and that the strengthening of the Popular Sandinista Revolution was our greatest contribution to the cause of socialism in the world (Ibid., 9).

But there are many socialisms in the world. Specifying the socialism of which they spoke, the Directorate mentioned "the Soviet Union and Cuba" as two leading representatives of the "socialist countries." Among other "socialist and revolutionary countries," they included "the German Democratic Republic, the Democratic Republic of Korea, Bulgaria, Algeria, Libya, [and] Vietnam" (Ibid.).

The Sandinistas' project of "deeper change, leading to a socialist process" was not fully defined, yet it was marked by certain key elements. Foremost among these was the goal of establishing significant state dominance of the economy:

We sought to gain control, direct or indirect, over the production of wealth, promoting in this way the transformation of social relations, thus developing the role and participation of the workers.

With control of the banks, foreign trade, and planning, we managed to obtain the country's most important instruments of economic direction (Ibid., 11).

Apart from state control of the "commanding heights" of banking and foreign trade, the Sandinista project involved significant state productive activity, especially in the agricultural sector. We will see in chapter four that the Sandinista project also assumed that the bulk of economic investment would be undertaken by the state. The project also contemplated increasing state influence over prices, and the gradual replacement of market prices with administered ones.

A central "anomaly" of the Sandinista economic project, relative to those economies that the Sandinistas considered socialist, was the continued survival of the

Nicaraguan bourgeoisie⁴. I will argue in chapter four that both political and economic factors led the Sandinistas to decide that the costs of "expropriating the bourgeoisie" would outweigh the benefits. They sought instead to encircle the bourgeoisie, both politically and economically. It is this continued survival of the bourgeoisie that led the Sandinista leaders to distinguish their strategy "leading to a socialist process" from socialism itself. Though they did not define socialism explicitly, various comments suggest that the leaders equated socialism with state expropriation of the major means of production and its attendant social changes⁵. Thus, both their stated commitment to socialism and their repeated comments that the bourgeoisie constituted a transitory ally⁶ left open the possibility of an eventual expropriation of the bourgeoisie.

In arguing that the Sandinistas sought to do much more than merely capture state power and hold it, I am arguing that the conception of "political rationality" wielded by many political scientists is not an adequate tool for understanding Sandinista actions. That is, the Sandinistas do not fit the entrepreneurial model of politics described by Downs, for whom

Party members have as their chief motivation the desire to obtain the intrinsic rewards of holding office; therefore they formulate policies as means to holding office rather than seeking office in order to carry out preconceived policies (1957,28)⁷.

⁴Throughout the thesis, the term "bourgeoisie" will be used to denote those who own means of production sufficient to sustain them without their own personal labour. It is used in preference to the more neutral "private sector," which would denote too broad a social sector in the Nicaraguan context, including peasants and artisans.

⁵Thus, in 1980 Jaime Wheelock commented that "it would be very simple to tell you that we will implement all the laws of socialism, and expropriate everyone here..." (JPRS 76378). Similarly, Tomás Borge wrote that "socialism was established in Cuba very soon after the victory -- that is to say, the basic means of production are in the hands of the state" (1987b, 58).

⁶See chapter five.

⁷Though Downs deals specifically with electoral regimes, he clearly believes his analysis is generalizable:

governors carry out their social function primarily in order to attain their private ends. Furthermore, those ends are probably the same in all societies: power, prestige, income, and the excitement of the political game (Ibid., 291).

The model may be termed "entrepreneurial" in that, just as economic entrepreneurs seek to

But if the Sandinistas do not fit this model, this certainly does not mean that they were indifferent between holding office and not holding it. There is no reason why some value cannot be both an end-in-itself and a means to other ends. State power can simultaneously be valued in itself, as a means to the benefits of office of which Downs speaks, as a means to keep future options open, and as a means to transform society.

But we should note the possibility of tension between two dimensions of state power: what might be termed the "generic" dimension, associated with the occupation of government office with its attendant honours and perquisites, may conflict with the "transformative" dimension, associated with the capacity to change society. In the Nicaraguan case, the Sandinistas' decisions to modify their original agrarian reform project, for example, both increased their power in the "generic" sense, by strengthening their hold on the state, and reduced their power in the "transformative" sense, by reducing their capacity to pursue their fundamental vision of socialism.

If one wished to pursue a hypothesis contrary to that put forth here, that is, if one wished to argue that the Sandinistas were simply run-of-the-mill political opportunists intent on seizing and holding power for its own sake, one must address some serious anomalies. The most serious of these is the fact that many of the Sandinistas' initial actions upon taking power did not reflect a bare calculus of "generic power" maintenance. Domestically, the June 1979 Plan de Gobierno gave the Sandinistas a possible basis for "peaceful coexistence" with the bourgeoisie, a basis which would have allowed the state great latitude for action⁸. Yet the Sandinistas quickly went beyond this programme, and did not shrink from repeated confrontations with the bourgeoisie, confrontations which I will argue can be explained in light of the Sandinistas' overall economic project. One cannot know for certain whether Sandinista respect for the programme would have

maximize profit, Downs's political entrepreneurs seek "to maximize political support" (Ibid., 11). And just as the ideal-type entrepreneur aims to produce profit, rather than any particular product for its own sake, so too the political entrepreneur is indifferent to the specific content of policy.

⁸See chapter four.

actually bought peace with the bourgeoisie in the long run, but it is significant that whenever respect for the programme conflicted with their project, the Sandinistas went beyond the programme.

Though the thesis does not deal with questions of foreign policy, it should be noted that the Sandinistas enjoyed at least the possibility of an understanding with the United States. Clearly, if there was anything that would have been likely to prolong the Sandinistas' hold on state power, it was a tolerable relationship with the United States. Yet, once again, the Sandinistas did not shrink from a confrontation: they offered material support to the FMLN, at least until late 1980 or early 1981; they insisted on retaining the phrase about the "Yankee, enemy of humanity," in the Sandinista hymn; they signalled an unmistakable tilt towards the Soviet bloc in early speeches⁹.

It should be stressed here that the argument is not that the Sandinistas were vague idealists pursuing a grand project at whatever cost. The Sandinistas repeatedly demonstrated a lively sense of political action as a mediation between the possible and the desirable. But the outcome of that mediation cannot be understood without some sense of what was "desirable" for them.

As the 1980s wore on, the Sandinistas saw a marked narrowing of the "possible." Hence the "desirable" became increasingly remote to their day-to-day decision-making. As the maintenance of "generic power" became more problematic, less attention was paid to the "transformative" dimension of power. We will see a gradual shift in Sandinista language from talk of economic change to talk of survival, from stress on the need to develop the popular classes to stress on broad "national unity," etc.

This shift has led some observers to stress Sandinista flexibility to the point of questioning whether the Sandinistas really had any grand project of social change at the time they came to power. But, and this brings us to my second central argument, the

⁹D. Ortega's speeches to the Non-Aligned movement, less than two months after taking power, and to the U.N. General Assembly, a month later, are prime examples (rpt. Ortega 1988d).

specific nature of the mid-1980s crisis and the ideological/political constraints upon facing that crisis are hard to grasp without understanding the Sandinistas' earlier orientations and actions, which reflected their project of change. The thesis thus stresses that political decision-making is a trajectory through time. The earlier points of this trajectory constrain, to a greater or lesser extent, those that follow. Early Sandinista price policy, for example, was both an element of the broad project of social change and a means for increasing the popular legitimacy of that project¹⁰. When they tried to modify that price policy in 1985 the Sandinistas found, like socialist reformers everywhere, that they had become imprisoned by the very instruments of legitimacy they had forged.

Again, the argument that the Sandinista project of social change contributed to the Nicaraguan crisis cannot be isolated from the "simple truths" presented at the outset of this chapter. The Sandinista project might well have succeeded in the absence of U.S aggression. Nevertheless, I will argue that various elements of the project were problematic in their own right. Further, certain policies increased Nicaragua's vulnerability to external aggression. Early policies towards the peasantry helped give the contras a pool for recruitment. Price and investment policies created a rigid and deficit-ridden state budget that could not adapt sufficiently to the needs of the defence effort. Even if one believes that the United States bears the fundamental responsibility for the Nicaraguan crisis, as I do, the contribution of Sandinista policies to Nicaragua's vulnerability should be understood by socialists throughout the Americas, unless one believes that future socialist projects--of whatever stripe-- will not have to cope with a hostile United States response.

To clarify further the meaning of the two arguments presented here, we may appeal to Weber's view of historical causality (1949, 164ff). To help evaluate the causal importance of a specific phenomenon in history, Weber argued, one should try to imagine to what extent the course of history would have been different in the absence of that

¹⁰See chapter four.

phenomenon. The greater the difference suggested by such a thought experiment, the more important is the phenomenon in question.

Thus, the arguments presented here can be interpreted to mean that, without the Sandinistas' Marxist ideological commitments, without their initial policies, the history of Nicaragua in the 1980s would have been quite different. While counter-factual thought can never establish certainties, let us reflect on this question.

We will see in chapter three that many observers were confused concerning the social base and ideological orientation of the Ortegas' *tercerista* tendency. Leftist observer James Petras dismissed the tendency as "social democratic" (1979, 14), while Shirley Christian argues that the distinction between the Ortegas' *terceristas* and the "social-democratic" Nicaraguan Democratic Movement "was growing fuzzy" by 1978 (1985, 75).

It was easy at the time to imagine a hegemonization of the *tercerista* project by social-democratic tendencies, and in fact Sandinistas belonging to the FSLN's other two tendencies feared this would occur. If this had taken place, and if this "social-democratic" tendency had dominated the new government, one can imagine Nicaragua undergoing a modest agrarian reform, expropriation of the Somoza family, various economic reforms, but no real challenge to the bourgeoisie as such, no attempts to organize the majority of the population and transform its ideological orientation, no broad attack upon the sway of the market. One can also imagine such a moderate reformist government arriving at a *modus vivendi* with the United States.

Thus it is easy to argue that Nicaragua would have experienced a very different decade. But the key word here is "different," not "better" or "worse." For it is just as easy to draw bleak scenarios from our thought experiment: a group of guerrillas arrive in power with little or no ideological convictions, with no deeply rooted vision of social change, with nothing, in fact, but the guns in their hands. While such a situation might have resulted in modest reformism, it is also easy to imagine the government quickly

becoming another right-wing authoritarian regime¹¹. It is also easy to imagine such a rootless regime seeking simply to replace Somoza as the United States' regional police force.

Thus, the analysis presented in this thesis of the difficulties encountered during the Sandinista decade should not be read to imply that some other golden path existed. Though Sandinista Nicaragua experienced a grim economic crisis, few Latin American regimes fared very well in the 1980s. Though the Nicaraguan economic crisis was in many respects the worst in the hemisphere¹², in no country does the situation today offer great hope to the poor majority.

To recapitulate, then, this thesis argues that the Sandinistas initially pursued a project of social transformation inspired by a relatively orthodox Marxism, and that this project contributed to the Nicaraguan crisis. The title of the thesis "The Fall and Rise of the Market," encapsulates these two arguments. The Sandinista project can be understood as a broad attack upon the sway of the market in Nicaragua. I will accept Weber's definition of individual markets:

A market may be said to exist wherever there is competition, even if only unilateral, for opportunities of exchange among a plurality of potential

¹¹Without exaggerating the similarities between situations, it is worth noting how quickly El Salvador's 1979 reformist regime degenerated into one of the most repressive governments in the hemisphere.

¹²On the basis of ECLAC data, we find that, during the ten complete years for which the Sandinistas held power (1980-1989), GDP per capita dropped 34%. The rest of Central America, by comparison, dropped 14%. Latin America as a whole suffered a GDP per capita drop of 7% for the same period. The Nicaraguan result was the worst in Latin America: the second-worst drop, 25%, was suffered by Bolivia.

The picture is grimmer still when one considers that the Sandinista decade began after two years of economic turmoil related to the insurrection. Thus, taking the 1978-1989 period as a whole, Nicaragua's GDP per capita dropped 58%. Once again, this is by far the worst result in Latin America. The second-worst result for the period, a drop of 21%, was suffered by Peru. The rest of Central America experienced a 15% GDP per capita drop over the same twelve year period. For Latin America as a whole, GDP per capita actually increased by 2%.

Turning to external debt figures: at the end of 1978, the last complete year before the Sandinistas took power, the Nicaraguan debt to export ratio (1.97) was slightly below the Latin American average (1.99). By 1989, the Nicaraguan ratio (22.07) was over seven times the Latin American average (2.99). Again, the Nicaraguan ratio was by far the worst in Latin America, over four times the second-worst ratio, that for Argentina (5.34).

parties" (1978, 635)¹³.

A market economy will be understood as an economy in which most production decisions are mediated through markets, that is, in which decisions are atomistic and competitive. Market society, for its part, will be defined following Polanyi, as a society "shaped in such a manner as to allow [the market economy] to function according to its own laws" (1957, 57). By "attack on the sway of the market," I mean an attack on Nicaraguan market economy and society.

Market society is thus more than a set of economic relations: it sustains and is sustained by diverse political and ideological practices. Decision-making to sustain a market society is correspondingly complex. What must be "reproduced," as Althusser pointed out, are not merely the means but also the relations of production (1971, 128). This implies, for example, that market-oriented decision-makers must seek to maintain social toleration of the existing distribution of productive resources, the structures that reproduce a "disciplined" labour force, the typical myths of market society concerning the relation of wealth to "hard work," etc.

But if market society is a complex reality, so too is the project of overcoming the sway of the market. Thus, the Sandinista project is one with economic, political, and ideological dimensions. This means that the adequacy of specific actions cannot be assessed according to any simple one-dimensional criterion of the sort available, for example, to neo-classical economists. While it is tempting to classify particular policies as "mistakes" in light of the overall Sandinista project, closer examination often reveals the existence of sharp trade-offs which left decision-makers with no unambiguously superior alternative¹⁴.

¹³There is no assumption here that markets need be price-equalizing, as is assumed in the neo-classical definition of the market (Stigler 1966, 85).

¹⁴This is important to keep in mind at the present time, when many Sandinistas are concluding that their economic policies were purely and simply mistaken. While a thoroughgoing self-critique is laudable from many points of view, if it loses sight of the tough choices that had to be made through the 1980s it may not help prepare the Sandinistas to wield power anew. I will return to this point in the final chapter.

Sandinista decision-making thus faced a double tension. There was the tension between maintaining their hold on power and using that power to change society, and there were tensions within the project of change itself. The thesis will seek to grasp the complexity of Sandinista decision-making. The FSLN leadership was fully aware of some of the dilemmas to be analyzed. Others, which I will term "objective" dilemmas, existed independently of the leadership's understanding of them. Examination of these dilemmas is important in order to avoid the easy assumption that a leadership with a different understanding of its situation would have achieved greater success in pursuing its project of transformation.

Thus, for example, chapter four will argue that a fundamental dilemma exists in the construction of socialism between an "accumulation focus" and an "alliance-building focus," a dilemma first articulated in the 1920s Preobrazhensky-Bukharin debate. Sandinista leaders, however, did not articulate the dilemma in these terms. While I have portrayed a choice in which both alternatives are consistent with a socialist project, Sandinista leaders were more likely to see the choice as one between "IMF" or "technocratic" policies, on the one hand, and "socialist" or "popular" ones, on the other. This way of "packaging" the dilemma has significant implications for its handling. On the other hand, even had the leadership "packaged" the dilemma differently, the dilemma would not have vanished.

It should be noted that these dilemmas are "objective" only in the sense that the leadership was not fully conscious of them. The existence of such dilemmas depends upon the project chosen by the decision-makers: a different project would generate different "objective" dilemmas. The Preobrazhensky-Bukharin dilemma, for example, exists only if one's economic model requires extensive state accumulation. Hence I have turned to earlier socialist debates, such as the one just mentioned or the Marxist debate on agrarian reform, in order to clarify some of the dilemmas faced by the Sandinistas, as these are debates among people who had many values in common with Sandinista decision-makers. That is, the debates of socialists are of relevance to socialists.

To focus the study of the Sandinista project, four broad issue-areas will be followed through the life of the revolution:

1. The organization and role of the state sector;
2. Price policy;
3. Relations with the bourgeoisie; and
4. Agrarian reform.

While other issue-areas could have been examined, the choice is not entirely arbitrary. The interaction between these issue-areas, and between the technical and political contradictions they reveal, demonstrates the complexity of the choices facing the Sandinista leadership. Thus, for example, agrarian reform was influenced both by the desire to maintain tolerable relations with the bourgeoisie and by the desire to develop a state-centric economy, as well as by such more immediately "economic" objectives as the desire to maintain the agro-export sector.

In studying the early years of the Nicaraguan revolution, we will see a partial "fall" of market economy and society, expressed in such phenomena as extensive new state controls on the economy, the autonomization of the state *vis a vis* the surviving holders of private wealth, the political organization of popular sectors, the project of ideological change involving critiques of wealth and the wealthy, the rhetorical exaltation of the workers and peasants, etc.¹⁵

The latter part of the 1980s, however, saw a resurrection of the market system as the Sandinistas tried to come to terms with a crisis generated in part by the attack on the market. This "rise" of the market was expressed through a relaxation of state controls, through the partial representation of bourgeois interests within the revolutionary bloc (and hence, within the state), through an ideological retreat marked by a new emphasis on inter-class unity, etc.

¹⁵Not all these phenomena are in contradiction with markets, narrowly defined, but they all militate against the reproduction of capitalist market relations of production.

B. Outline

Chapter two will begin with a review of central elements of Marx's theoretical system. I will present Marx's view of capitalism as an "organic system" and his dialectical evaluation of capitalism, in which the various dimensions of the organic whole are held to have both positive and negative aspects. The chapter will argue that Marx defined socialism less in terms of what it "looked like" than in terms of its historic role in transcending capitalism. It will then be argued that Marx's reasons for predicting the demise of capitalism, though failing to prove that socialism must occur, constitute a plausible set of conditions for the existence of socialism.

This will lead to a consideration of the change in the conception of socialism that occurred after Marx's death, and will use Marx's theory to identify some of the central dilemmas of what will be termed "catch-up" socialism. While it has been common to focus on the lack of technical pre-requisites for socialism in underdeveloped countries, I will focus also on a political obstacle: Marx's own conceptual system suggests that "catch-up socialism" will be a project that *almost nobody wants*.

Finally, the chapter will examine the specific nature of the catch-up socialist economy. I will argue that socialist firm managers replace the sensitivity to the market held by their capitalist counterparts with a sensitivity to administrative orders. Given the organic nature of economic systems, this shift from a profit orientation to an administrative orientation has various implications for the nature of the socialist economy. This highly stylized presentation of the catch-up socialist model will aid us in evaluating the relation of the Sandinista project to that model in later chapters.

Chapter three will argue that the FSLN came to power shaped by a Marxism much more orthodox than has been recognized or admitted by many observers. Despite their flexibility once in power, this initial orientation had a great influence on their initial policy choices, which in turn influenced the entire course of the Sandinista decade. The chapter will reject the common view that Sandinista ideology was the product of a convergence of Marxism, Christianity, and the nationalism of Sandino. Various orthodox

Marxist themes found in the discourse of the Sandinista leadership will be examined, as will the leaders' emphasis on ideological training both within the FSLN and in society at large. The chapter will also argue that even the writings of Humberto Ortega, chief strategist of the allegedly social-democratic *tercerista* tendency of the FSLN, clearly demonstrate an orthodox Marxist self-understanding. Ortega's writings also present a two-stage vision of the revolution, in which an early "democratic-revolutionary stage" will give way to a "socialist" phase. In later chapters, this vision will provide an important explanation of some policy decisions in the post-1979 period.

Chapter four will offer a somewhat artificial "snapshot" of Sandinista thinking on the four issue-areas at the moment of taking power, before the dilemmas of holding power had begun to modify that thinking. It will be argued that Sandinista strategy on questions as diverse as relations with the bourgeoisie, agrarian reform, planning and price policy was consistent with a catch-up socialist project. The chapter will also examine relevant aspects of the economic legacy which the Sandinistas inherited from the Somoza regime, and will briefly treat some of the dilemmas that have been faced by other regimes on the road to a socialist economy.

Chapters five to eight will follow the four issue-areas through four chronological periods. Though periodization is always somewhat artificial, the periods chosen do provide convenient lines of demarcation. Simplifying somewhat, the four periods can be characterized as follows:

1. Reconstruction and consolidation: July 1979-1981 (chapter five);
2. Stagnation and policy paralysis: 1982-1984 (chapter six);
3. Stop-go adjustment: 1985-1987 (chapter seven);
4. Radical adjustment: 1988- February 1990 (chapter eight).

In the first period, the economy grew slowly, recovering somewhat from the sharp drop of G.D.P. during the insurrection period. Chapter five's look at the state sector will examine the failure of MIPLAN's attempt to gain control over economic policy, the problem of "bureaucratism" and tensions in relations with state specialists. The production-maximizing orientation of state firms and its implications for financial control

will also be considered. The consideration of price policy will examine the rise of "unofficial market"¹⁶ phenomena in the 1979-1981 period, as well as the continuing contradictions in state price policy. Attention will also be paid to the drop in real prices for peasant products and in real salaries. The chapter will argue that the fundamental conflict between the bourgeoisie and the Sandinistas in the period was about power: what the bourgeoisie felt the government must do to guarantee the bourgeoisie's long-term interests was incompatible with what the FSLN felt it must do to consolidate its power and to lay the groundwork for change. The frustration of the bourgeoisie's basic long-term objectives will be considered, along with the FSLN's attempts to neutralize the bourgeoisie's political resources. Finally, the 1981 agrarian reform law and the Sandinistas' continued rejection of a small-holder-oriented agrarian reform will be studied.

The 1982-1984 period, examined in chapter six, was one of increasing difficulties for the FSLN, difficulties which sharpened the tension between using state power to transform Nicaragua, and merely holding on to that power. Economic growth tailed off, and significant economic imbalances developed. Government policy failed to adapt to these imbalances, a failure whose costs would be felt for the rest of the decade. The contra threat loomed as a shadow over the period, influencing relations with both the bourgeoisie and the peasantry. The FSLN sought to hinder the development of links between the bourgeoisie and the contra, while continuing to channel bourgeois demands in an economic direction. The Sandinistas were slower, however, to recognize the threat that the contra posed for their relations with the peasantry, a perceptual lag which

¹⁶This term will be used in preference to "black market," which generally carries a connotation of illegality. The activities of Nicaragua's "unofficial market" straddled the none-too-clear line between legality and illegality. Thus, from 1984 on, the economy would be characterized by: (i) official markets, run by the state or under state supervision, with goods sold at official prices; (ii) unofficial markets, which "escaped" state regulation (though whose prices and practices were greatly affected by the existence of such regulation); and (iii) "parallel" markets, established by the state with higher-than-official prices, to compete with the unofficial marketeers. In practice, the line between (i) and (ii) was somewhat fuzzy.

manifested itself in the agrarian reform strategy of this period. Nevertheless, the transfer of land to the peasantry was accelerated, though the government continued to impose cooperativization on would-be recipients of land.

The 1985-1987 period (chapter seven) was marked by repeated attempts to address the economic imbalances that had emerged in the earlier periods. Economic adjustment, however, ran into a series of political and technical constraints. The period saw, first, greater realism concerning the existence of markets in Nicaragua, and then a growing "retreat" in the face of market forces. While relations with important parts of the bourgeoisie remained hostile, the growing autonomy of the FSLN's farmers' association (UNAG) led for the first time to the articulation of "bourgeois" demands within the revolutionary bloc. Continued pressure from landless peasants, on the other hand, frustrated the state's desire to wind down the agrarian reform, and led to an increasing abandonment of the modernization perspective that had marked the earlier periods of agrarian reform. Towards the end of the period, the Central American peace accord signed in August 1987 began to influence Nicaragua's internal political dynamics.

In the 1988-1989 period (chapter eight), economic reforms scuttled most key elements of the state-dominant economy project. Price controls were abandoned, and the market was allowed to determine ever more significant economic variables, including, by 1989, the exchange rate. Politically, the degree to which support for the FSLN had depended upon the containment of market forces became even clearer. The increase in tensions within the Sandinista camp provoked an erratic political strategy on the part of the leadership, with attempts at reconciliation with the bourgeoisie alternating with attacks on that same class. The agrarian reform, for its part, had by and large run its course.

The final chapter will examine various questions raised by the Nicaraguan experience.

C. Methodology

We must now examine certain epistemological assumptions implicit in this

methodology, and some questions regarding the quality of the available information. The attempt to sketch the leadership's broad project and the evolution of its understanding of its situation will require heavy use of the leaders' speeches and writings. The epistemological assumption here is that the leaders' public words yield some indicators on their thinking. Is this a reasonable assumption?

It would seem that it is not. Successful revolutionaries, like other political actors, are well aware of the need to be careful in their use of language, and to maintain a veil between thoughts and words. Carlos Rafael Rodríguez writes that Castro

told me that one of the defects he found in Communist tactics was that their analyses defined with too much clarity the revolutionary objectives to be pursued and their views on the various classes that would have to be overthrown, which put the enemy on alert and made victory more difficult (1978, 92).

Likewise, Augusto César Sandino, after whom the FSLN was named, once confided to a Basque interviewer that if he declared his true beliefs to people, "they would take me for a madman or a drunk" (Belausteguigoitia 1981, 143).

Near the beginning of his 1974 study of insurrection (rpt. 1981), Sandinista strategist Humberto Ortega cited Che Guevara:

War is always a struggle in which each side tries to annihilate the other. Both sides will therefore use, apart from force, every possible dodge, every possible trick, to attain this result (Guevara 1985, 1:36).

Among the "tricks" which the Sandinistas learned early on was to be extremely tactical in their language, evaluating to whom they were speaking and seeking a vocabulary that would not alienate.

Sandinista poet Leonel Rugama once said that heroes "never said they would die for their country, they just did it." Analogously, the early Sandinistas thought that authentic revolutionaries should not proclaim their ideology, they should just act upon it. Humberto Ortega would later comment that the struggle began "without labels, without proclaiming books that we knew, but did not want to proclaim" (B 11-12-79).

The need for discretion emerged from both external and internal factors. Externally, Sandinista founder Carlos Fonseca stressed the need not to "provoke"

imperialism (1985, 1:172). Internally, the Sandinistas felt that an openly Marxist language was inadvisable given the long-standing campaign against communism in the country,

that communism that tears babies from the arms of their mothers, burns saints and closes churches, which takes their few cows away from small farmers... (Ramírez 1987, 97).

If observers have been confused by the orientation of the FSLN, and in particular by the nature of its evolution in the late 1970s, this testifies to the success of the movement in cultivating ambiguity in its self-presentation. One can view this tactic as "dishonest," if one likes to use such categories to evaluate political action, or one can see it as an intelligent response to the extremely negative connotations that have been attached to the word "Marxist," in large part through the work of people who have not encumbered themselves with concerns for honesty. FSLN Directorate member Bayardo Arce addressed this problem in an interview with European journalists:

Q: One of you once said that Sandinism is the application of Marxist-Leninism to the reality of Nicaragua. Is that a definition?

A: I would say yes, on the condition that we be clear about the essential problem of arbitrary connotations, the problem of alienated language... When one says "Marxism" or "Marxist-Leninism," people's internal computers set to work --and their computers are of course quite undernourished as far as actual facts are concerned-- and in a moment out pops "Kremlin." (H. Ortega et al 1986, 12).

It is clear that the tactical use of language complicates the relation between thoughts and words. But the words of the leadership cannot be dismissed as mere camouflage. In their writings and speeches, leadership must develop an "organizational glue," a set of shared pre-suppositions that will both enable group members to make decisions in the light of a group ethos¹⁷, and help dampen intra-group conflicts that may emerge as the group enters new contexts. Shared pre-suppositions help a group approach new situations with a common vocabulary and common assumptions. As FSLN founder Carlos Fonseca put it, Marxism was a "compass" for the organization (1985, 1:141).

¹⁷Thus, organization theorist Herbert Simon stressed the importance of indoctrination, which will "enable [the employee] to make decisions, by himself, as the organization would like him to decide" (1965, 103). Training would replace the direct exercise of authority, giving the subordinate a frame of reference, a set of "approved" solutions, etc. (Ibid., 15f).

It will be argued in chapter three that Sandinista leaders paid great attention to the development of shared pre-suppositions in the training of party cadres, both before and after coming to power¹⁶. But this task places certain limits on the degree of discretion with which the leadership may speak. Too clever a rhetoric may confuse the movement's cadres and sympathizers as much as it does the enemy. Thus, though FSLN founder Carlos Fonseca valued discretion, he nevertheless declared in 1968 that

it is necessary that we declare clearly that we wish to put an end to a society divided between exploiters and exploiters, between oppressors and oppressed. Let us declare that our overall objective is to return to the workers and peasants, to all workers, the riches which through violence have been stolen from them... [We] are guided by the noble principles of Karl Marx (1985, 1:141).

Fonseca's call for rhetorical clarity came after the FSLN had spent the mid-1960s struggling with its own "reformist" tendencies. Fonseca felt that the FSLN was suffering from "a lack of discipline, audacity, and organization" (Ibid., 1:162), problems that created a need to abandon the more discrete rhetoric of the early 1960s.

Excessive discretion is also a problem for a movement that is seeking to transform political attitudes in society at large. Fonseca commented in 1968 that

Our people, who for some time to come will continue to suffer from a low political level, will be confused if we speak in a grey language (Ibid., 1:141).

Thus, rhetorical discretion is in conflict with both the need to solidify one's "organizational glue" and the desire to transform political attitudes in general. It will be argued in chapter five, for example, that the desire to transform the political attitudes of Nicaraguans led the FSLN in power to wage an energetic ideological struggle against the bourgeoisie, a struggle which has puzzled some observers, given the FSLN's apparent desire to enlist the cooperation of that same bourgeoisie.

Because Sandinista leaders sought to consolidate their movement and transform society, their public words could not be entirely divorced from their thoughts. Key

¹⁶The FSLN came to power as a cadre party with strict criteria for membership, which were very gradually relaxed. These criteria are discussed in chapter three.

elements of their grand vision were communicated through a plethora of speeches and writings, speeches that were often the object of careful collective study and reading by party cadre and by groups of workers within the state and its associated institutions.

If we accept that the public words of the leadership provide an indication of their thinking, the next methodological question concerns the reliability of access to those public words. While I will cite from some books of speeches and interviews with the leadership, the principal source will be Barricada, the official organ of the FSLN. Barricada does appear to have toned down or eliminated some elements from speeches¹⁹. It should not be assumed, however, that the paper was thereby "censoring" the leadership against the leadership's will. It is more likely that the editors of Barricada were given a mandate to exercise "sober second thought," identifying elements of leaders' speeches that it might not be convenient to publish. Thus, the public words of the leaders can be considered to have been mildly filtered by the time they reach the pages of Barricada. The evidence that this process has not entirely disembowelled the leaders' words is that many printed speeches were anything but anodyne²⁰.

Other frequently cited sources of Sandinista speeches are the Joint Publications Research Service [JPRS] and the Foreign Broadcast Information Service [FBIS], both

¹⁹This statement is based on the comparison of speeches made in meetings which I attended with their Barricada coverage. For example, the Barricada coverage of a mid-1985 speech by Minister of Internal Trade Ramón Cabrales omitted Cabrales' outline of the government's long-term plan to take over wholesale trade (see chapter seven). Coverage of an early 1987 speech by Daniel Ortega to workers at the Secretariat for Planning and Budgeting omitted remarks that were implicitly critical of fellow National Directorate member Henry Ruiz.

Upon occasion, Barricada published two versions of the same speech, the second apparently aimed at "correcting" some statements in the first. In chapter eight, I will note some differences between two versions of a June 1988 speech by Daniel Ortega.

²⁰I will make the same assumptions regarding speeches and interviews published in books. Again, I do not wish to exaggerate the degree of filtering that took place as books were prepared. An interesting case is an early 1985 speech by National Directorate member Victor Tirado, parts of which drew a mild --yet extremely rare-- public rebuke from Daniel Ortega (see chapter seven). A collection of Tirado's speeches published by the FSLN's *Editorial Vanguardia* (Tirado 1986) omitted the speech. On the other hand, a collection published by the Sandinista Workers' Central (CST) included the speech, with its controversial paragraphs intact (Tirado 1985).

services of the United States government. My comparison of speeches translated in these sources with the corresponding Barricada texts shows a general agreement between sources.

Having considered the "epistemology of words," we must now examine the "epistemology of numbers." What is the quality of Nicaraguan economic data? To what degree do the data allow us to reconstruct the economic reality of Nicaragua in the 1980s? The possibility of conscious manipulation of public data has been raised by one observer (Colburn 1986, 6). A former official, now an opponent of the FSLN, echoes this charge, claiming for example that at least three distinct balances of payments were maintained within the government (Alaniz 1985, 117). I have no evidence to support this charge. There are, however, significant inconsistencies in official data, and important errors persisted for quite some time²¹.

One of the most problematic sets of Nicaraguan data is the consumer price index (CPI). This measure of inflation was unreliable in the extreme²². The index is, first, Managua-centred, and hence does not reflect inflation data outside the capital. It also contains a strong bias towards official prices, and hence would not reflect the rise in unofficial-market prices²³. These two biases distort the "feedback" reaching decision-

²¹The most significant errors were the economic growth figures for 1980 and 1981, which were revised downwards only in 1985 (see chapter five). One area of significant inconsistency is terms of trade data. ECLAC (1984, 440), whose data are based on official government sources, indicates that 1984 terms of trade had declined 44% relative to 1977. A data series constructed on the basis of more recent ECLAC data suggests a decline over the same period of just 18% (see Statistical Appendix, Table A.2). An internal data base of the Secretariat of Planning and Budgeting calculates a 25% decline in terms of trade over the same period.

These differences may reflect the choice of quantity vectors from different base periods which, unfortunately, are not identified in any of the sources. Since the pattern of Nicaragua's exports was shifting sharply after 1977, quantity vectors from different base periods would yield significantly different export price indices.

²²The following comments are based on a study of the Consumer Price Index prepared by the author in October 1986 while working in the Department of Employment and Salaries of the Secretariat for Planning and Budgeting.

²³In my study of the raw data entering into the CPI formation, I repeatedly found "average recorded prices" identical with official prices, at times when consumers would be hard put to find the product in question for sale at the official price.

makers, hence creating a policy bias. For example, from 1985 on the government tried to improve the supply of goods outside the capital, and reduce the disparity between official and market prices. Under such conditions, the CPI would tend to overstate the rate of inflation, just as it had understated it prior to the change in policy²⁴. Decision-makers would thus be left with the impression that their change in policy was more inflationary than it in fact was. Other problems in the CPI included an obsolete consumer basket, which tended to overstate the rate of inflation, and a deficient methodology for the handling of products not found in any given month's price survey, which tended to understate it.

One can consider the Nicaraguan CPI at best a reflection of the order of magnitude of inflation. Thus, one can say with some confidence only that Nicaragua suffered double-digit inflation from the FSLN's taking of power until late 1984, triple-digit inflation from late 1984 until late 1987, and four- or five-digit inflation after that time.

This means that there is much about the Nicaraguan economic situation in the 1980s that cannot be known with certainty. For example, though there has been considerable discussion of the evolution of rural-urban terms of trade through the FSLN decade, the lack of a reliable urban inflation index, and of any rural index at all, makes such discussions highly speculative²⁵. Similarly, measures of "real" salaries are highly

²⁴If the supply of goods outside the capital is improving, one would presume that prices there are rising more slowly than in the capital. Similarly, if one is reducing the gap between official and market prices, the rate of increase of official prices, which are over-represented within the CPI, is higher than that of prices in general.

²⁵One approach to the problem has been highly anecdotal. Carlos Molina of the Secretariat for Planning and Budgeting, for example, calculated that a quintal of maize could exchange for five pairs of pants or 100 batteries in 1976, but for only two pairs of pants or two batteries in 1985. These are helpful indicators, as pants and batteries are products purchased by rural producers, but they obviously cannot be thought to provide a full picture of rural-urban terms of trade.

A second approach has been to take the Nicaraguan CPI seriously, and deflate prices for peasant products such as beans or maize by the CPI or some portion thereof. Vilas (1984, 401), for example, estimates "real" prices for peasant products by deflating nominal products by the "Food, drink, and tobacco" portion of the CPI. He finds little drop in "real" producer prices from 1979 to 1983. There is no reason for assuming, however, that this portion of the index is a particularly good reflection of the inflation

dubious, and approach the point of absurdity for the late 1980s²⁶.

A related problem concerns the GDP deflator, used to convert data on real GDP into estimates of nominal GDP²⁷. Accurate nominal GDP estimates are crucial for estimating such variables as the ratio of the fiscal deficit, government spending, or money supply to GDP. ECLAC (1983) suggests that nominal GDP was probably undervalued, given the fact that the GDP deflator was rising less quickly than the CPI. Given the problems of the CPI, of course, this fact of itself tells us little. For what it is worth, we may note that, from 1950 to 1978, the GDP deflator was an average of 104% of the CPI, with a standard deviation of just 4.6%. In the 1980s, however, the two measures part ways: by 1983, the deflator was just 73% of the CPI. By 1986, it had dropped to under 30%.

Whatever the problems of Nicaraguan data, it must be noted that economic data have a dual nature. They both reflect, however imperfectly, a social reality, and constitute part of the reality taken into account by decision-makers. That is, so long as decision-makers treat data seriously, even the worst data yield insight into the economic situation *as perceived by decision-makers*. Thus, for example, whether or not prices actually rose as fast in early 1985 as the CPI indicated they did, the belief that prices had sharply risen affected leaders' perceptions of the economic reform being applied at that time (see chapter seven).

A final point: if there is much about the economic situation that cannot be known with certainty, the same is true for the Nicaraguan situation in general. The historian, wrote Marc Bloch, knows of the past "*seulement ce que se passé même veut bien lui confier*" (1939, 16), and any study of Sandinista Nicaragua yields as many puzzles as certainties. I

actually experienced by the peasantry.

²⁶I will thus use the term "deflated" instead of "real." Unless otherwise noted, the term will indicate values deflated by the CPI.

²⁷Sic. It appears that the Nicaraguan practice was to establish the variation in real GDP first, then calculate an implicit deflator which would yield an estimate of nominal GDP. See ECLAC (1983, 471).

will examine two types of puzzles here, those that will probably never be solved, and those that might be in time.

The first type can probably never be resolved, because, if the information necessary for its solution is not already stored away somewhere, it is lost forever. For example: to what degree, and in what way, did the various sectors of the Nicaraguan population support the Sandinistas upon their coming to power? If one were able to answer this question, one might have a better sense of the FSLN's room to manoeuvre upon coming to power. This latter problem has been debated by the Sandinista leadership itself, as it relates to a number of early policy choices. For example, was the FSLN's 1979 base of support strong enough to withstand an initial strategy of economic austerity, or did political consolidation require the FSLN immediately to embark on an ambitious programme of social services and to increase the trade deficit in order to import consumption goods? Only if we could answer this question could we say whether the large fiscal and trade deficits which the government sparked from the outset were politically necessary or not.

A second type of puzzle might be cleared up at some point, particularly if the FSLN leadership continues its current policy of discussing the past with ever-increasing openness. One puzzle in this category concerns the career of Directorate member Jaime Wheelock. We will see that Wheelock became extremely influential in charting Sandinista development strategy, and that his Ministry of Agriculture and Agrarian Reform succeeded in clipping the wings of the Ministry of Planning, headed by fellow Directorate member Henry Ruiz. To anyone familiar with the history of the FSLN, this was a puzzling outcome. Ruiz was one of the most popular of the Sandinista leaders, and had spent more time fighting in the countryside than any of the others. Given the Sandinistas' mystique of the guerrilla struggle, his history granted Ruiz great prestige. Wheelock, on the other hand, apparently never took up arms, resolutely opposed the insurrectional strategy that brought the Sandinistas to power, and in the mid-1970s was expelled from the movement for disciplinary lapses (Borge 1979, 245). How exactly did Wheelock,

whom one might have expected to play a relatively marginal role in the new government, come to such prominence? We do not know, though this puzzle might one day be solved.

Chapter 2: Marxism's Two Socialisms

All things derive their essential character from their function and their capacity; and it follows that if they are no longer fit to discharge their function, we ought not to say that they are still the same things, but only that, by an ambiguity, they still have the same names.

Aristotle (1958, 6)

The *Frente Sandinista de Liberación Nacional* [FSLN] is a Marxist movement. It sought to establish socialism in Nicaragua, a tiny country that produces as much in a year as Canada does in a day.

To a late nineteenth century Marxist, the juxtaposition of those two sentences would have provoked bewilderment or hilarity. That it does not do the same today reflects in part the legacy of Lenin, Mao, and others. But it also reflects the profoundly equivocal usage of the word "socialism."

We have all heard the following type of statement:

Marx predicted that socialism would arrive first in the most developed nations. But in fact socialism has come into being only in the less-developed areas, beginning with Russia.

But to what degree does the "socialism" of the first of these sentences coincide with that of the second? Certainly, many are willing to grant that the socialism of the USSR *et al* differs from the ideal which Marx proclaimed. But it is easy to ascribe this difference to "accidents" of history: Stalin's psychoses, the "Asiatic temperament" of Russia, and so on.

Those who appeal to accidents of history to explain the gap between Marx's socialism and that of the twentieth century, and those who ignore the gap altogether, must hold that Marx's view that socialism would follow upon fully developed capitalism was a merely peripheral part of his theoretical system¹. But I will argue in this chapter that this

¹Thus Victor Tirado, one of the nine leaders of the FSLN, holds that Marx's view that socialism would follow developed capitalism is "not essential within the Marxist body of doctrine," and simply reflects the accidental fact that in Marx's time socialist movements were strongest in Europe (1986, 295). Progress Publisher's 700 page manual of Marxist orthodoxy devotes one paragraph to the idea that advanced capitalism creates the "material and social premises" for socialism. The exposition then slides, by way of Lenin's argument that capitalism had already matured at a global level, to the decidedly post-Lenin idea that socialism can be established even in the absence of an advanced level of capitalist development. By sleight of hand, the "material and social premises" of socialism vanish (Economía Política 1982, 349f).

view was central to Marx's thought, and that his socialism must be sharply distinguished from that which emerged in our century. At the same time, I will argue that Marx's understanding of socialism and capitalism provides important clues to understanding the difficulties that will necessarily confront a project such as that of the Sandinistas. This does not mean that one use of the term socialism is right and the rest are wrong, but that we must have a clear sense of the implications of the terminological shift.

The first four sections of this chapter will review central elements of Marx's theoretical system. These elements are presented, not because they are all empirically correct, but because they form much of the framework of later Marxist thought. I will first consider Marx's view of capitalism as an "organic system". The second section of the chapter will consider Marx's dialectical evaluation of capitalism, in which the various dimensions of the organic whole are held to have both positive and negative aspects. This dialectical evaluation, it will be noted, has been splintered into "humanist" and "developmentalist" (or "modernizing") currents of Marxism.

The third section of the chapter will examine Marx's definition of socialism. I will argue that Marx defined socialism less in terms of what it "looked like" than in terms of its historic role in transcending capitalism. The fourth section will consider Marx's argument predicting the demise of capitalism. It will be argued that Marx's reasons, though failing to prove that socialism must occur, constitute a plausible set of conditions for the existence of socialism.

The fifth section will examine the change in the conception of socialism that occurred after Marx's death, and will use Marx's theory to identify some of the central dilemmas of what will be termed "catch-up" socialism. While it has been common to focus on the lack of technical pre-requisites for socialism in underdeveloped countries, I will focus also on a political obstacle: Marx's own conceptual system suggests that "catch-up socialism" will be a project that *almost nobody wants*.

Section F will examine the specific nature of the catch-up socialist economy. I will argue that socialist firm managers replace the sensitivity to the market held by their

capitalist counterparts with a sensitivity to administrative orders. The profit orientation which reigns under capitalism is replaced with an orientation towards selective (real or simulated) compliance with those orders. Whereas capitalist firms represent parallel structures in competition within one another, the socialist economy replaces inter-firm competition with lines of authority that converge within the state, though not at a single point within the state. This highly stylized presentation of the catch-up socialist model will aid us in evaluating the relation of the Sandinista project to that model in later chapters.

A. Marx's capitalism

Marx's capitalism is an "organic system" in which each element is both result and "presupposition" (1973, 278)². Its central aspects -- the competitive market, concentrated ownership of the means of production, the profit motive, pervasive commodification, technological dynamism -- are mutually reinforcing.

Thus, for Marx, pervasive competition sustains the profit motive, a motive which differentiates the capitalist from earlier producers who sought "not enrichment as such, but a life appropriate to a certain status or condition" (1977, 1030). But why must the capitalist, unlike, say, the feudal lord, compete at all? Why not fall behind others, accepting a more modest rate of return? Marx answers that the nature of capitalism has abolished "the independence of self-sustaining property" (1973, 639). The value of any given property cannot be sustained without dense links to the economic system as a whole. This is because capitalist production depends on land, labour and other inputs that are all commodities; capitalism is, as Sraffa puts it, a system of "production of commodities by means of commodities" (1960).

Marx follows Sismondi in understanding the commodity as something that becomes useful to its owner only through exchange (1973, 860). It thus has a "subjective"

²Unless otherwise noted, all references in this chapter are to Marx's works.

dimension: labour power does not become a commodity until the worker looks upon the concrete content of her labour with indifference (1977, 1013). But this subjectivity is objectively grounded: the worker sees her labour power as something to be exchanged because she does not own any means of production upon which she could expend her own labour. The commodification of labour thus depends upon the concentration of the means of production in few hands, the process which Marx identifies as capitalism's true "primitive accumulation." Marx repeatedly cites writers such as Wakefield who argue that, in colonial areas where land is still available, workers generally refuse to enter into wage relationships (1954, 718ff).

The pervasive commodification of life that is part and parcel of capitalism gives life to the competition that sustains the profit motive. Marx notes repeatedly that the commodified worker is "free" in a double sense: "freed" from all ownership of means of production, but also free to go and work for whomever she pleases. Treating her own labour power as a commodity, she has no emotional ties to her employer. Hence, if that employer falls behind in the competitive race, he will eventually be unable to pay the market rate to all his inputs, including labour power, and will hence lose the capacity to reproduce his capital.

This situation obviously contrasts with economic systems in which productive inputs are generally not commodities: the feudal landlord does not have to fear losing his labour supply if he cannot pay his workers the market rate of return, because his workers are tied to him through a variety of mechanisms. Thus, the plurality of producers under non-capitalist conditions does not drive the producers into competition with one another.

Thus, for Marx (i) the profit motive is sustained through (ii) competition, which is made effective by the (iii) pervasive commodification of all elements of production, which is sustained in part by (iv) concentrated ownership of the means of production.

But Marx's determinations are reciprocal. Competition, for example, furthers the concentration of the means of production. Marx also held that competition among workers would keep the price of labour power oscillating around its value, the level

generally considered as the minimum return to the labourer. If the worker does not treat her labour power as a commodity, if she gets too choosy about what work she does and for whom, she will probably find it difficult to earn even this bare minimum of sustenance. Thus, competition among workers in the labour market forces the worker to treat her labour power as a commodity.

Finally, elements such as competition and concentration of ownership promote the technological dynamism of Marx's capitalism. In its early stages, Marx argued, the capital-labour relation implies a merely "formal" subordination of labour to capital: previously isolated workers can be brought under one roof, for example, but their productive technique does not change (1954, 180). But this "formal" subordination sets the stage for developments of productive technique (1977, 1064): the mere gathering of workers in one place, for example, can suggest new forms of the division of labour, which itself suggests mechanical developments to replace now-simplified manual tasks³. It is with these technological developments that capital, and capitalism, enjoys its "full development" (1973, 699).

B. Marx's evaluation of capitalism

To summarize the previous section, Marx's capitalism is an organic whole characterized by:

- i) the concentration in few hands of the means of production;
- ii) a competitive market system in which land and labour are commodified, and in which production is dominated by the profit motive;
- iii) a technological dynamism that intensifies the division of labour and mechanization.

Marx's critique of capitalism is a critique of all these elements.

He critiqued the concentration of the means of production from a number of angles. The separation of workers from instruments of labour means that they must sell off their "creative force" in order to survive. Hence the worker's creative force, that

³"[T]he invention of all those machines by which labour is so much facilitated and abridged, seems to have been originally owing to the division of labour" (Smith 1937, 9).

which makes her fully human, becomes an alien power confronting her (1973, 307). Because the worker will only sell her labour power if she is without alternative, Marx argued, capitalism demands that the majority of people be destitute. "[S]ocial misery," as the young Marx put it, appears as "the goal of the economy" (1964, 74). He would cite such economists as Mandeville and Townsend to corroborate this argument (e.g. Marx 1954, 576; 1973, 845).

The fact that the concentration of the means of production generates plenty midst its poverty, Marx also argued, intensified the misery of poverty. Stressing as he did the social nature of needs and consumption, Marx pointed out that a house becomes a hovel when it is surrounded by mansions (Marx and Engels 1969, 1:163)⁴. Marx's capitalism drove the worker to the primitive life of the cave dweller, but a cave dweller

aware of the contrast between his own dwelling and a human dwelling such as exists in that other world, the heaven of wealth (1964, 177).

Marx also criticized the intensified division of labour characteristic of capitalism. This turned the worker into a "crippled monstrosity" (1954, 340), a "mentally and physically dehumanized being" (1964, 138). Because workers increasingly serve their machines rather than use them, "labour has lost all semblance of self-activity and only sustains their life by stunting it" (Marx and Engels 1970, 92).

Marx also critiqued the capitalist market. The anarchy of the market is perhaps the most central theme in his economic analysis. He repeatedly juxtaposed this anarchy with the "despotism" and "tyranny" confronting workers in the factory (1978, 130; 1954, 337; 1959, 881). Capitalism represents an "interaction between details which are subject to laws and a totality ruled by chance," as Lukacs put it (1971, 102).

⁴If one believes that the enjoyment of a certain level of consumption is dependent upon social standards -- and it is hard to see how one could seriously question this point -- then it becomes well-nigh impossible to apply the whole apparatus of Pareto-optimality to economics. One can no longer hold that a change which makes some people materially better off while leaving no one materially worse off is necessarily a positive change, since those whose material level is unchanged may feel worse off because of their relative impoverishment. One may dismiss this feeling as mere *ressentiment*, but such a cavalier response does not do justice to this fundamental aspect of human psychology.

Because each capitalist seeks "to capture as big a portion as possible of the market" (1959, 673), Marx argued, capitalism must suffer periodic crises of over-production, crises which "in all earlier epochs, would have seemed an absurdity" (Marx and Engels 1969, 1:114)⁵.

Thus, while under capitalism people are no longer subjected to bonds of personal dependence, they are "more subjected to the violence of things" (Marx and Engels 1970, 84):

the relation of supply and demand... hovers over the earth like the fate of the ancients, and with invisible hand allots fortune and misfortune to men (Ibid., 55).

Marx also critiqued the inhumanity of the market. He felt that capitalism reduced relations between people to one of "naked self-interest." Each person treats the other as a mere means to the fulfilment of her own goals (1973, 243f)⁶. In particular, the capitalist relates to the worker only as labour-power (1954, 252)⁷.

All this, Marx stressed, does not depend on the "good or ill will of the individual capitalist (1954, 257). Under conditions of competition, the capitalist cannot do otherwise⁸. Similarly, competition also drives workers against one another (Marx and Engels 1969, 1:173), creating what Poulantzas would later call the "isolation effect" (1978,

⁵One must remember that the capital which Marx saw devalued during these crises is the same capital whose production he described in his gruesome chapters on the factory regime (1954). The devaluation of capital thus represented for Marx not a mere loss of wealth, but a declaration of the futility of much human suffering.

Other factors also contribute to economic crises (see below).

⁶Marx was probably alluding here to Kant's injunction to treat people "never simply as a means, but always at the same time as an end" (1964, 96).

⁷Weber later echoed this analysis, arguing that the market represented "the most impersonal relationship of practical life": "participants do not look toward the persons of each other but only toward the commodity" (1978, 1:636).

⁸Marx cited one factory owner who stated that "In Birmingham there is so much competition of masters one against another, that many are obliged to do things as employers that they would otherwise be ashamed of" (1954, 514).

130). Marx's capitalism thus resembles Hobbes' war of all against all⁹.

Apart from the degradation of relations between people, Marx argued that capitalism's inhumanity expressed itself through a degradation of people's relations to the world around them. The bourgeois "awakens unhealthy appetites" in others and stimulates their "most depraved fancies" in order to sell his wares (1964, 169). But the bourgeois relation to the world is also degraded: all the "human relations to the world-- seeing, hearing, smelling, tasting, touching, thinking..." come under the rule of the desire for personal possession:

Private property has made us so stupid and partial that an object is only ours when we have it, when it exists for us as capital or when it is directly eaten, drunk inhabited, etc. in short, utilized in some way (Ibid., 159).

This debasement of the human relation to the world is most clearly visible in the inversion of the role of money, which passes from servant to "lord and god" (1973, 221), becoming an object of "worship" (1964, 37).

Finally, Marx critiqued the market's tendency to generate "fetishes." Though this was not a central aspect of Marx's critique, I will examine it here as the concept has been used and abused by other socialists. For Marx,

fetishism... metamorphoses the social, economic character impressed on things in the process of social production into a natural character stemming from the material nature of those things (1956, 229).

This fetishistic confusion of the social and the natural is sustained by capitalist markets. In market society, many central aspects of social reality are not intended by any one. Where the atomistic competition of economic agents manages to generate relatively stable phenomena -- a "going" rate of profit, or a going wage rate-- it is easy for those phenomena to appear "natural." The very impersonality of the market, in which individuals look, not to each other, but to each other's commodities, allows relations between people to take on "in their eyes, the fantastic form of a relation between things"

⁹Engels once commented that the strong resemblance between the animal world portrayed by Darwin and the capitalism portrayed by Malthus did not prove that the latter was "natural," but demonstrated capitalism's disgraceful inability to rise above the "economic forms of the animal world" (Marx and Engels 1942, 198).

(Marx 1954, 77).

Marx's critiques of capitalism generally reveal his "humanist" side, the side that rebelled against capitalism's deformation of what Marx considered most specifically human. Despite the claims of those who argue that Marx's "epistemological break" led him to abandon both his humanism and such "ideological" notions as "alienation" (Poulantzas 1970, 99), I believe that this orientation is present throughout Marx's life¹⁰.

But there is another element in Marx's vision, as his critique of capitalism was not rooted in nostalgia, a sentiment condemned throughout his writings. While criticizing capitalism, he recognized that the bourgeoisie "has accomplished wonders," and was the first class "to show what man's activity can bring about" (Marx and Engels 1969, 1:111). Nor did Marx believe, like Proudhon, that one could neatly distinguish the "good" and the "bad" of capitalism¹¹. As in the New Testament parable, Marx believed that wheat and chaff would only be separated in the fullness of time.

Thus, Marx could also praise every aspect of capitalism that he critiqued. While the concentration of the means of production provoked a variety of ills, it was also responsible for an unprecedented mobilization of surplus labour, for the development of labour discipline, of new needs, of "rich individuality," etc. (1973, 325). Capitalism's intensified division of labour, for all its brutality, eliminated what Marx termed the "craft-idiocy" of previous modes of production, permitting the worker to feel for the first time the aspiration to "an integral development of the individual" (1978, 138). With the capitalist division of labour, Marx held, the worker "strips off the fetters of his individuality, and develops the capabilities of his species" (1954, 312).

Marx was also willing to grant the capitalist market its due. While criticizing the anarchy of production as one of the most reprehensible aspects of capitalism, he also felt

¹⁰Note, for example, the humanist basis that runs through Marx's presentation of factory conditions in the first volume of Capital.

¹¹"The very setting of the problem of eliminating the bad side cuts short the dialectic movement" (1978, 106).

that under capitalism it was "the source of all progress" (1978, 63).

Though he criticized the "dependence upon the violence of things" that this anarchy of production engendered, he also suggested that this was a step forward compared to the "fixed personal relations of dependence" that characterized previous modes of production (1973, 156)¹². "Certainly," says Marx, the new interconnection of individuals through the market "is preferable to the lack of any connection, or to a merely local connection resting on blood ties, or on primeval, natural or master-servant relations" (Ibid., 161).

Marx also felt that the fact that the capitalist selling process creates new needs has a positive as well as a negative side. Though the process "awakens unhealthy appetites," the creation of new needs may also be seen as a "civilizing influence" of capitalism (1973, 256)¹³.

Marx, then, offered a dialectical evaluation of capitalism. For all its misery, it was a painful necessity so long as it performed its "historical mission" of developing the forces of production¹⁴. When it no longer did this, it must "be gone and... give room to a higher state of social production" (1973, 750).

¹²In a passage which Selucky (1979, 24) sees as foreshadowing a central dilemma of socialism, Marx writes that, under capitalism, "Each individual possesses social power in the form of a thing. Rob the thing of this social power and you must give it to persons to exercise over persons" (1973, 158).

¹³Bertell Ollman (1976, 76) argues that, for Marx, needs are the means by which people become aware of their faculties. The development of new needs, Ollman argues, is thus for Marx a reflection of the development of new human powers. One sees this link when Marx speaks of how the bourgeois obsession with creating new wealth in fact contributes to developing the "universality of individual needs, capacities, pleasures, [and] productive forces." When stripped of its bourgeois limitations, Marx writes, this process becomes the creation of our own "totality" (1973, 488).

¹⁴This dialectical evaluation, however, appears to have been suspended with respect to at least one phenomenon: as far as I know, Marx has nothing good to say about fetishism. Unlike other aspects of capitalism which come under his scrutiny, he seems to view it as simply bad. He does not appear to have asked himself whether fetishism was truly a peculiarity of the capitalist mode of production. I believe that there is in fact a tendency in any social system for people to view as natural that which is "merely" social or historical. I will argue in chapter four that such "fetishism" may be a requirement of social systems, one that agents of socialist transformation ignore at their peril.

This evaluation can be grasped through Teilhard de Chardin's image:

Imagine a deep-sea diver trying to get back from the seabed to the clear light of day. Or imagine a traveller on a fog-bound mountain-side climbing upward towards the summit bathed in light. For each of these men space is divided into two zones marked with opposing properties: the one behind and beneath appears ever darker, while the one in front and above becomes ever lighter. Both diver and climber can succeed in making their way towards the second zone only if they use everything around and about them as points of leverage. Moreover, in the course of their task, the light above them grows brighter with each advance made; and at the same time the area which has been traversed, as it is traversed, ceases to hold the light and is engulfed in darkness (1965, 107)¹⁵.

The greatest evil, in this vision, is not the means one must use to propel one's self upwards, but any return to the dark depths.

One may reject this entire line of argument, if one does not believe that a central objective of history is to develop the forces of production to their "highest" level¹⁶. This belief is the great unacknowledged "value judgement" of what might be called "developmentalist" or "modernizing" Marxism¹⁷. This "developmentalism" within Marxism coexists in tension with Marxian "humanism".

¹⁵This image is pertinent to Marx precisely because it echoes the Hegelian conception of negation and progress. Hegel will compare the path to true knowledge with the way of the soul which journeys through the series of its own configurations as though they were stations appointed for it by its own nature, so that it may purify itself for the life of the Spirit... (1977, 49). As in de Chardin's image, the way-stations are the very medium through which progress occurs.

¹⁶One may also reject some of the values underlying this central value: for example, the value judgment that the development of needs represents a development of our humanity.

¹⁷Godelier, for example, feels that, by showing that socialism was necessary to preserve the existing forces of production, Marx was able to demonstrate the superiority of socialism through an analysis "entirely independent of any *a priori* idea about happiness, Man's essence, 'true' freedom, and so on" (1967, 82). But the claim that the forces of production must be maintained, even at the cost of revolutionizing society, is as much an *a priori* value as is the belief that a society should preserve freedom or equality. It is a value that many would have rejected even in Marx's day, and that many more would dismiss in our present age of ecological crisis. If it does not appear to be an *a priori* value, that is merely because we are not accustomed to seeing values dressed in a "materialist" garb.

C. Marx's socialism

How did Marx understand socialism? A common answer is to say that Marx was so busy critiquing the present that he never prepared a blueprint for the future, but that he did leave us some clues. Socialism would be marked by "*ex ante*" rationality, attained through planning, as opposed to the "*ex post*" rationality of the capitalist market. Under socialism the means of production would be "socialized."

But if we approach Marx's socialism in this way, we miss its essential difference from twentieth-century socialism. After all, this latter socialism, like that of Marx, has "planning," and both have "socialized" means of production.

But the key to understanding Marx's socialism is to examine, not just what it "looks like," but also what it "does." And what Marx's socialism "does" is best understood in the light of his general understanding of the dynamic of history:

Men never relinquish what they have won, but this does not mean that they never relinquish the social form in which they have acquired certain productive forces. On the contrary, in order that they may not be deprived of the result attained and forfeit the fruits of civilisation, they are obliged, from the moment when their mode of carrying on commerce no longer corresponds to the productive forces acquired, to change all their traditional social forms (Marx and Engels 1969, 1:518f).

Marx's socialism *preserves the fruits of civilisation*, civilisation as it has been developed in and through capitalism. Marx's socialism *transcends* capitalism, in the Hegelian sense of transcendence, denoting both abolition and preservation. To use a Hegelian imagery, in the transition to socialism the forces of production "devour" their "worldly envelope" -- capitalist economic relations -- but also "elaborate upon" this very envelope in order to pass to a higher stage¹⁸.

Marx's socialism depends upon fully developed capitalism, preserves the fruits of that capitalism, and surpasses its contradictions. We may term it "transcendent socialism."

¹⁸"The spirit, devouring its worldly envelope, not only passes into another envelope, not only arises rejuvenated from the ashes of its embodiment, but it emerges from them exalted, transfigured, a purer Spirit. It is true that it acts against itself, devours its own existence. But in so doing it elaborates upon this existence; its embodiment becomes material for its work to elevate itself to a new embodiment" (Hegel 1953, 89).

To the best of my knowledge, Marx never spoke of socialism in any other manner.

This is not a mere difference of degree from twentieth-century socialism, it is a difference of kind. In appreciating this difference, it is worth bearing in mind the citation from Aristotle with which the chapter began.

Thus, I believe that an understanding of the twentieth-century socialist project must begin with an appreciation of the gulf between that project and Marx's vision of "transcendent" socialism. This appreciation will help illuminate the painful contradictions of modern socialism.

D. Marx's prediction of socialism

Marx not only believed that socialism would be necessary to preserve the fruits of civilization, he also felt that this fact would eventually make itself obvious to broad sectors of the population, and that the development of capitalism itself would endow those sectors with the political capacity to bring about the transcendence of capitalism. His prediction that the fullest development of capitalism would lead to socialism was not mere crystal-ball gazing, but an extrapolation based upon his (selective) observation of the world around him.

Marx observed economic, political, and ideological dynamics that would promote both a desire for socialism and the capacity to achieve it. Among these dynamics were:

- a) the relative immiseration of workers;
- b) periodic crises produced by the market, crises which would be intensified by capitalism's lengthening of the spatial and temporal separation between production and consumption decisions (1956, 77ff);
- c) secular crisis generated by the declining rate of profit, which generates "bitter contradictions, crises, spasms" (1973, 749);
- d) the intensified "degradation of the labourer, and a most straitened exhaustion of his vital powers" that results from capitalists' attempts to counteract the falling rate of profit (Ibid., 750);

- e) the heightened potential for worker organization, brought about in part by their increased physical concentration (Marx and Engels 1969, 1:116)¹⁹, and because the very "domination of capital," in its attempts to eliminate pockets of workers with monopolizable skills, reduces workers to a "common situation" with "common interests" (1978, 168);
- f) the increased social isolation of capitalists, owing to the increasing concentration of capital (1959, 264), and the proletarianization of ever-broader segments of the population (including the peasantry), through an economic process in which a "whole mass of functions and activities which formerly had an aura of sanctity about them, which passed for ends in themselves" are reduced to forms of wage-labour (1977, 1041);
- g) the increased transparency of exploitation, through capitalism's stripping away of a range of feudal illusions, leaving "no other nexus between man and man than naked self-interest, than callous 'cash payment'" (Marx and Engels 1969, 1:111), and bringing to the surface the "sordid self-interest" that had previously been hidden (1964, 115);
- h) the increasingly obvious parasitic nature of capital, as ownership is divorced from managerial activities (1959, 386ff).

One can criticize Marx's analysis on a number of points. To a large degree his model reflects the extrapolation of tendencies that were no longer clear-cut *even at the time Marx was working on Capital*. His belief, for example, that trade unions could only serve to keep wages from falling below their traditional level (1977, 1069ff), was probably an accurate reflection of English conditions in the 1830s and 1840s (Jones 1983, 113), but not in the second half of the century²⁰.

Similarly, Marx's belief that the class polarization of society would continue unabated, and that the vast mass of society would be proletarianized, reflected his view that society would be unable to confront the purely economic dynamics of capitalism.

¹⁹The consequence of the physical concentration of workers was noted by others, such as James Mill (see Macpherson 1977, 45). This insight into the relation between a productive form and its political consequences stands above the neo-classical analysis of choices of production technique. The latter analysis, which focuses only on the relative prices of "capital" and labour, blames Third World unemployment on above-equilibrium wage rates and excessively cheap capital. It thus ignores many problems, for example by assuming an endless variety of productive technologies. But most importantly, it ignores the whole problem of the enterprise as a political unit, one that must maintain internal relations of authority.

²⁰Ironically, Marx alluded to the possibility that workers could achieve long-term increases in their standard of living, and even glimpsed what today would be called the "ratchet effect" (1973, 287).

This view seemed justified by early nineteenth century English conditions. But even the 1832 English Reform should have suggested to Marx that political struggles might interfere with economic dynamics. As Polanyi (1957) has shown, modern society proved to be more than a passive recipient of the effects of the capitalist economy, and was in fact able to transform that economy in "self-protection"²¹.

But Marx's model can be read in an entirely different way, a reading quite different from Marx's own, one that increases its relevance for twentieth-century socialism. Rather than viewing the list presented above as a set of factors proving that socialism must occur, one could view it as a plausible set of conditions for socialism. For example, rather than "predicting" that workers with monopolizable skills will be eliminated by capitalism, one could say that so long as they are not eliminated, political support for socialism will be harder to develop. Rather than predicting the proletarianization of the near-totality of society, one could say that the absence of this proletarianization constitutes a serious obstacle to socialism, for example by preserving among broad strata the belief that they can improve their condition through individual ownership of a small parcel of land²².

This reversed reading of Marx, in which alleged causes of socialism are seen as possible necessary conditions for socialism, will contribute to an evaluation of the dilemmas facing twentieth-century socialism.

E. From "transcendent" to "catch-up" socialism

Engels, more than Marx, was willing to discuss the anomalies that should have brought in to question Marx's view that capitalism's own development must eventually

²¹ Marx was willing to recognize this possibility elsewhere, as when he noted that political or legal phenomena were hindering the proletarianization of the peasantry in France and Germany (1977, 1075, 1082).

²² This is true, of course, only in so far as one holds that socialism is in the long term incompatible with small-hold agriculture. We will see in chapter four that twentieth century socialist revolutionaries, following Marx, have held this to be the case.

lead to socialism. He originally spoke of these anomalies in a moralizing fashion, as when he criticized the embourgeoisement of the English working class in an 1852 letter to Marx (Marx and Engels 1942, 60). But Engels did not ask how, if Marx's model were correct, England could produce a "bourgeois proletariat" (Ibid., 116).

After Marx's death, Engels expressed even more serious doubts on Marx's model, though once again without questioning it directly. Writing to Bebel, he argued that:

Our great advantage is that [in Germany] the industrial revolution is only just in full swing, while in France and England, so far as the main point is concerned, it is closed. There, the division into town and country, industrial district and agricultural district, is so far concluded that it changes only slowly. The great mass of the people grow up in the conditions in which they have later to live, and are accustomed to them (Ibid., 431).

If Marx's model had been correct, of course, it would have been impossible for the population to grow accustomed to conditions, as those conditions would have been in continual flux, marked by relative impoverishment, growing degradation, etc.

But while Engels' comparison of France and England with Germany cast cold water on Marx's model of revolution, it also suggested another possibility: that revolution might result from essentially conjunctural factors, from short-term upheavals characteristic of capitalism in its earlier phases. This implication was developed by Lenin. But Lenin accepted much of the Marxian system. He accepted, for instance, Marx's view of the "historic mission" of capitalism (1956, 654ff).

"Our Revolution" (rpt. 1968, 360ff), one of Lenin's last writings, gives the clearest presentation of his understanding of the relation of the Bolshevik revolution to socialism. He accepted the traditional Marxist view that a "definite level of culture" and "civilization" were necessary for the development of socialism, but argued that these "prerequisites" could be attained "in a revolutionary way." Only after this would Russia "start moving towards socialism."

Lenin insisted that this reversal of the sequence of steps foreseen by Marxism did not reject the "general line of development of world history," but merely reflected the "peculiarities" of the Russian situation (Ibid.). He also believed that this reversal of

sequence would only be successful if it eventually was supported by revolutions in Western Europe²³.

The development of a quite different conception of socialism, then, owes less to Lenin than to the political needs of Stalinism. It was Stalin who proclaimed the possibility of "socialism in one country," hence, by Stalinist logic, this had to occur²⁴. But to define the USSR as "socialist," the term had to be robbed of most of its historic content. Thus, "social ownership" of the means of production was reduced to state ownership, irrespective of the nature of the state in question, the elimination of "exploitation" was reduced to the elimination of private ownership, etc.

This second conception of socialism might be called "catch-up" socialism. In his classic statement on the urgency of catching-up with the West, Stalin proclaimed that:

We are fifty or a hundred years behind the advanced countries. We must make good this lag in ten years. Either we do it or they crush us (Deutscher 1961, 328).

This emphasis on catching-up would give Soviet socialism many of its essential characteristics: the compression of consumption, what Kornai calls "taut" planning, and, I believe, political authoritarianism.

Thus, one can define catch-up socialism as a system that seeks a rapid development in the forces of production, so as to reach the levels of advanced capitalism, through extensive state ownership and direction. Within the language of historical materialism, one can say that catch-up socialism seeks to develop relations of production and a social "superstructure" that will foster the most rapid possible development of the forces of production, beginning from conditions of relative backwardness.

From the point of view of the traditional Marxist view of socialism, this catch-up socialism might be described as "socialism without prerequisites." The conditions for

²³Lenin never repudiated his 1918 statement that there was "no hope of the ultimate victory of our revolution if it were to remain alone" (1968, 240).

²⁴Soviet orthodoxy places the end of the "transition to socialism" towards the end of the second five-year plan, that is, in the 1935-37 period (Economía Política 1982, 371ff).

socialism presented above are generally absent. Catch-up socialists will often interpret this problem in technical terms, noting, for example, that the lack of monopoly capital makes socialist planning more difficult (Lenin 1971, 85). But there is a political dimension to the problem as well.

Recall that Marx's conditions for socialism made socialism not only possible but also desirable. Marx's was a vision of "revolution in the fullness of time" (Schumpeter 1976, 58), precisely because he rejected a conspiratorial, "Blanquist," approach to revolution. His transcendent socialism would come about because material conditions would permit it, but also because capitalist reality would evolve in such a way that the vast majority of people wanted socialism.

By contrast, catch-up socialism is born as a project that almost no-one wants. Under conditions of relative backwardness, the lack of support for catch-up socialism is not the product of "false" or manipulated consciousness, but very much a reflection of the "true" consciousness of a large part of the population²⁵. It is this "objective" problem of catch-up socialism that will lead to projects of "consciousness raising" that will have little to do with Mao's call to "teach the masses clearly what we have received from them confusedly" (1970, 450), and much more to do with his very un-Marxian assertion that:

the outstanding thing about China's 600 million people is that they are 'poor and blank'... On a blank sheet of paper free from any mark, the freshest and most beautiful characters can be written... (1977, 500)²⁶.

Now one can raise here an objection grounded in dependency theory. Assume that peripheral capitalism is blocked from further development at a fairly early stage. In this

²⁵In Marx's model, it is quite reasonable for factory workers who have engaged in decades of struggle against their bosses, and who have been repeatedly thrown out of work, to come to believe that the socialization of the means of production, suppression of the market, etc., represent the solution to their problems. By contrast, it is not equally reasonable for peasants whose struggles have traditionally been aimed at securing control of a small parcel of land to believe that socialism is an answer for them.

This is the positive usage of Lukacs' "imputed class consciousness." Despite its authoritarian implications ("what should people believe?"), it can also be used as a sort of reality check ("what is it reasonable for people to believe?").

²⁶"[T]he common people's minds... are like clean paper, fit to receive whatsoever by Publique authority shall be imprinted in them" (Hobbes 1968, 379).

case, none of Marx's views concerning the historically progressive nature of capitalism hold. Hence a change in relations of production is just as necessary to preserve the (modest) fruits of peripheral capitalism, and to allow for further progress, as it would be in Marx's ideal case of fully "ripened" capitalism. By this argument, "catch-up" socialism would be just as "transcendent" of the capitalism which it succeeds as Marx's transcendent socialism.

But even if one accepts that peripheral capitalism is as "blocked" as some dependency theorists have argued, crucial distinctions remain between "transcendent" and "catch-up" socialism. Unlike socialism as Marx envisioned it, "catch-up" socialism is, of course, still left with the crucial task of "catching-up." This has important political implications related to the problem of accumulation, which will be examined in a moment.

In addition, even if peripheral capitalism has exhausted its possibilities of development, "catch-up" socialism would remain a socialism without the pre-requisites examined above. Now, one can argue that these pre-requisites are nowhere carved in stone, that the fact that they are implicit in Marx's vision of the coming of socialism is neither here nor there. Well and good, but if one is to avoid falling into complete voluntarism, one must offer some alternative sense of what the pre-requisites of socialism might be.

It is certainly not acceptable to argue that the crisis of peripheral capitalism (on its own or in conjunction with a wise vanguard), will generate the necessary conditions for socialism. Let us recall once more that, in Marx's vision, socialism would emerge not just because capitalism was blocked, but because capitalism had created the political and material conditions for its own transcendence. This is not the case for socialism on the periphery.

Many would argue that the very stagnation of peripheral capitalism creates the political basis for peripheral socialism. This, I believe, is incorrect, and ignores a crucial problem of Third World socialist movements. The stagnation of peripheral capitalism creates a constituency for change, not necessarily for change in the direction of catch-up

socialism. Thus, rural anger at the existing state of affairs has led to demands for land reform that would reverse certain historical patterns, for example by diffusing ownership. This can create a potent force for change, but it creates no automatic support for socialism, at least as this has been conceived by socialist revolutionaries of this century. Hence, the peasantry and a socialist movement can unite in a revolutionary upsurge, without any agreement on long-term objectives.

It is precisely this distinction between support for change and support for catch-up socialism that has led to the great gap between the political programmes that Third World socialists have used to mobilize support and their long-term economic project. The Sandinistas offer but one example of this gap.

This last point leads to an important observation: because socialist movements have historically been bearers of more than just a "catch-up" socialist project, any lack of appeal of that project need not determine the popularity of the socialist movements themselves. Thus, movements that have headed the drive for national liberation, or the drive to oust an unpopular dictatorship, can enjoy a level of support quite unrelated to support for their socialist project. The question is whether they can transform one type of support into another.

The "unwelcome" nature of catch-up socialism is revealed most starkly around the question of accumulation. Marx firmly held that individuals, left to their own devices, would accumulate little or nothing:

The course of social development is by no means that because one individual has satisfied his need he then proceeds to create a superfluity for himself; but rather because one individual or class of individuals is forced to work more than required for the satisfaction of its need - because surplus labour is on one side, therefore not-labour and surplus wealth are posited on the other (1973, 401).

Marx cited with approval Stuart's comment that "[i]f mankind be not forced to labour, they will only labour for themselves" (1977, 1054). This was precisely a key historical justification for capitalism, to provide the "compulsion to perform surplus labour" (Ibid.).

What are the implications of this view for catch-up socialism? If Marx is correct, then the project of catching-up means that somebody will be forcing the vast majority of the population to produce a surplus. Awareness of this reality first entered the discussions of catch-up socialists during the Soviet economic debates of the mid-1920s, particularly through the writings of Preobrazhensky²⁷. This will have implications for the general political structure of catch-up socialism: it is easy to imagine how a state that is forcing the vast majority of the population to work much harder than it wishes can take on an authoritarian character²⁸.

The view of such socialists as Ernest Mandel, who argues that the rate of accumulation should be decided democratically so that accumulation becomes the result of "freely-agreed sacrifices," optimistically evades the problem (1968, 631). *Under conditions of relative underdevelopment*, the result of such a democratic path would likely be "freely-agreed" stagnation²⁹.

The point here is not to pass an ethical judgement on catch-up socialism. One could well argue that no major change in history has reflected the will of the majority, and thus that it is silly to apply the criteria of democratic ethics to such "world-historical" events as the transition to catch-up socialism. But the viability of the socialist project requires that one confront the potential challenges inherent in this project. To ignore the problems raised here does socialism no service.

²⁷I will touch on the importance of Preobrazhensky's writings for socialist strategy in chapter four.

²⁸At the same time, the authoritarian character of the catch-up socialist state can make society opaque to the state itself. That is, a situation in which peasants are induced to hide grain, companies are induced to hide capacity, etc., is one in which the state cannot really grasp the condition of the society it is dominating. State decisions on accumulation can then become increasingly arbitrary, leading to over-accumulation. On the self-defeating nature of socialist over-accumulation, see Kalecki (1972).

²⁹One could of course reject this line of argument, and hold that Marx was simply wrong in believing that people are not spontaneously inclined to make great sacrifices in the name of future generations. One could hope, for example, that the great moral authority gained by the revolutionary movement in the struggle for liberation will be translated into a willingness to make long-term sacrifices for the project of accumulation. As far as I know, however, history has not smiled on this hope.

The analysis presented here neither is nor seeks to be "escape-proof." It does not argue the impossibility of "catch-up" socialism -- which would be absurd, since such socialisms have existed throughout this century-- nor does it establish the impossibility of such a socialism coexisting with democracy. The analysis does, however, point to tensions between democratic decision-making and the "catch-up" socialist project³⁰.

F. The specific nature of the catch-up socialist economy³¹

It is important to grasp the specific nature of the socialist economy, in order to be able to evaluate the degree to which the Sandinista economic project sought to reproduce elements of that economy. Perhaps the greatest barrier to understanding has been the wide gap between the language used to legitimize socialist economies and their reality. The language of legitimation was naturally based upon the Marxian "classics," but, as was noted above, legitimation required that those classics be emptied of much of their content. Thus, social control of the economy is reduced to state control. This state control, for its part, is equated with Marxian "planning," whatever the irrationalities it provokes. This "planning" is then held to fulfil Marx's promise that socialism would overcome the "anarchy" of market production.

Now, if one begins one's analysis of the socialist economy by focusing on its language of legitimation, one can easily miss the critical differences between this economy and capitalism. Analysts have frequently shown that planning has in no way eliminated "anarchy" from the economy: the inability to control investment, the "arhythmia" demonstrated by "planned" economies, the lack of a significant statistical correlation between the plan's growth targets and actual results (Shmelev and Popov 1989, 91), suggest

³⁰In the nineteenth century, of course, thinkers across the political spectrum were convinced that capitalism was incompatible with mass democracy. Just as capitalist democracy has managed to shield a wide range of decisions from the democratic process, one can envision a socialist democracy that would shield the accumulation process.

³¹Unless otherwise noted, from this point on by "socialism" I will mean the "catch-up socialism" of the twentieth century, or, as it came to be termed by some, "actually existing socialism."

that the planning process may be little more than a time-consuming ritual. One can in fact run through the elements of Marx's complex definition of capitalism and find them all in the socialist economy: markets continue to exist, the means of production remain concentrated (unless one believes that state property is effectively the property of "the people"), and so on. One can thus come to the conclusion that socialism is but "state capitalism."

But I believe that there is in fact a critical distinction between capitalist and socialist economies, one that can be grasped by beginning at the level of the firm. In the capitalist market economy, firms are in competition, and hence represent parallel, or duplicated, structures. Those at the top of the firm must pursue the search for profit. In the socialist economy, similar firms are subordinated to a common authority. Relations to both suppliers and purchasers will be regulated by that authority. Those at the top of the firm are motivated by the need *selectively to comply or simulate compliance with administrative orders*, in order to pursue personal objectives and/or those of the firm. Let us examine this distinction.

It is a common-place that, while the capitalist entrepreneur's fate depends on the market, that of the socialist manager depends on his superiors. But it is too simple to say that socialism replaces market-sensitivity with obedience. The orientations given to the firm emerge from a planning process which is, and must be, a "massive aggregation and disaggregation operation" (Hewett 1988, 123). For example, an estimated requirement for tanker-trucks of a given capacity might be aggregated with demand for tanker-trucks in general, and then with demand for all trucks. After calculations have taken place at a highly aggregated level to identify total production requirements, disaggregation of these results will generally be left to lower administrative levels. There is no guarantee that this disaggregation will be "symmetric" with the original aggregation. That is, there is no guarantee that disaggregation generates tanker-trucks in the right variety of sizes, or any

tanker-trucks at all³².

In practice, much of the final task of disaggregation is left to the individual firm, despite repeated attempts to specify the assortment of production required of the firm (Kaser and Zielinsky 1970). Attempts to reduce the room to manoeuvre of the firm, and to make its behaviour conform more closely to that desired by the planners, led to a proliferation -- running into the hundreds -- of "obligatory" targets (Hewett 1988, 127).

Socialist firms found, however, that since they could not comply with all these "obligatory" requirements, they were actually left free to choose which orders they wished to "obey" (Brus 1969). When orders multiply into the hundreds, compliance (real or simulated) necessarily becomes selective. In addition, in any bureaucracy the degree to which those giving orders have the information necessary to monitor compliance with those orders varies greatly. The bureaucrat who is not personally committed to the goals laid down by her superior may find it possible, and much more attractive, to provide simulated rather than actual compliance. Thus one can say that socialism replaces the profit motive by the drive *selectively to comply or simulate compliance* with administrative orders, in order to pursue personal objectives and/or those of one's firm.

The situation is not as anarchic as this description suggests, however, because not all orders are created equal. By explicitly or implicitly giving priority to some orders, the centre can lead the firm to respect those orders and indicators understood to be most central for the bonuses of the firm, or for the future careers of management. One criterion that has been of particular importance in socialist economies is that of gross output. The reasons for the stress on gross production are not altogether clear. It may be attributed to an "ideological" factor, the desire to distinguish socialist enterprises (oriented towards "use values") from capitalist ones (oriented towards "exchange values"). This relates to the specific mission of catch-up socialism. Rapid economic development is, as

³²This describes Soviet practice in general terms. Hewett however notes that for some 2,000 "critical commodities" Gosplan plays a closer supervisory role, to ensure a fit between requirements and supplies, and to channel supplies to priority areas in cases of shortfall (1988, 125).

Bukharin put it, a process of "constructing buildings with bricks that have not yet been produced" (cited in Ellman 1979, 39). Thus, the process is constantly running into multiple bottle-necks. This may be the "material basis" for the "ideological" focus on use values: the production of bricks --and many other things-- has a benefit for economic growth as a whole that the profit-oriented firm will treat as an irrelevant "externality." Thus, an economy-wide system of administration should allow for an "internalization" of externalities, an internalization which finds operational expression in an emphasis on gross output.

Yet this is certainly not the whole story. The emphasis on gross production outlived whatever economic usefulness it might have had. Kaser and Zielinsky note that, even after Polish economic reforms had sought to dethrone the gross output indicator, firms found that the indicator continued to play the central role in their evaluation by the state bureaucracy (1970, 104). Writings on the Soviet economy have repeatedly noted the exasperation of reformers who could not understand the persistence of the gross output emphasis despite explicit attacks on it, dating back to 1957 (Hewett 1988, 225; Shmelev and Popov 1989, 263; Desai 1989, 11). It appears that bureaucrats find this indicator the easiest to wield, and resist attempts to downgrade it. One could hypothesize that it is easier to monitor the sheer quantity of a firm's output than, for example, product quality or the caliber of management's response to profit opportunities.

This approach to the distinction between existing capitalism and socialism downgrades the importance of ownership. A privately owned enterprise in a socialist economy can be drawn into an administrative relation with the state, just as a state firm under capitalism can participate in the market like any private firm. Nevertheless, since central authorities have additional resources to encourage compliance from state sector managers, they will find it easier to establish administrative relations within the state sector³³. Hence, the quest for a socialist economy is also a quest for a state-dominant

³³Janos Kornai (1989) argues that the strong affinity between public ownership and bureaucratic coordination is one of the key lessons of attempts at socialist reform.

economy. This state dominance can be expressed through both a dominance of state firms within the economy, and of state authorities over the private sector.

It should not be assumed, however, that the state which dominates under socialism can be viewed as a "unitary actor," nor that the subordination of firms to central state authorities signifies ultimate subordination to a single point within the state. Michael Ellman has clearly presented the gap between theory and reality on this question:

The Marxist-Leninist theory of planning assumes that all the decision makers in an economy form a "team," that is, a group of persons working together who have identical goals. In fact the decision makers form a "coalition," that is, a group of persons working together who have some, but not all, goals in common (1979, 76).

Thus, in socialist as well as capitalist systems, "bureaucratic politics" affect state action. As elsewhere, officials within central state institutions will interpret orientations from above in the light of their own institutional priorities, fully aware that their own career path will probably depend on how their specific area of responsibility is handled, rather than on their overall contribution to the good of state or society as a whole³⁴.

The awareness of socialist state leaders that their preferences do not simply radiate downwards through a limpid bureaucratic sea is indicated by the various schemes for bureaucratic reform that have sought to shake up lines of authority and make the system less "heterarchical" or "polycephalic." These schemes have ranged from the relatively modest shift in authority from party to technocracy undertaken in East Germany in 1953 (Selucky 1972, 65), through Khrushchev's short-lived administrative decentralization in 1957 (Kaser and Zielinsky 1970, 42), to Mao's radical attack on the bureaucracy in the Cultural Revolution (Whyte 1989, 241). In future chapters, we will see that the FSLN

³⁴Hewett offers various examples of the implications of this in the USSR. Because officials of any given ministry were primarily concerned with their own ministry's performance, and because that performance could be hampered by the failure of firms associated with other ministries to deliver resources as promised, many ministries became fully vertically integrated, seeking to establish autarchic "natural economies" at a ministerial level. This led to such phenomena as "cross-shipments in Soviet transport... as ministries ship 'their' products back and forth among their enterprises, while other ministries ship identical products, possibly in opposite directions." Thus, sawn timber was simultaneously shipped by different ministries from Siberia to Europe and vice versa (1988, 171ff).

leadership also engaged in its share of bureaucracy bashing.

Our point of departure for understanding the difference between capitalist and socialist economies has been the reorientation of the attention of firm managers from the market to administrative orders. Though the order-giver in the socialist economy is no more "sovereign" than the consumer in the market, the shift of attention from market to orders is nonetheless crucial. Competition between firms is replaced by coexistence and shared subordination to state authorities. Of particular importance is the fact that investment decisions are not based upon market signals.

This does not mean that markets and competition disappear altogether. As the Weberian definition of the market includes situations of "unilateral" competition, we can say for example that a situation in which buyers vie with one another to obtain scarce consumer goods is a market situation, even if the sellers do not directly compete with one another. This competition need not relate to prices: if prices are officially controlled, price rationing may give way to rationing by queues or by "contacts," and the effort to attain a favourable position in the queue is every bit as competitive an activity as one can find in the capitalist market.

If we accept Marx's organic conception of capitalism, in which each element is both result and presupposition, then socialism's negation of the profit orientation and inter-firm competition should influence all the other component elements of the complex that is capitalism. Recall that, for Marx, competition reciprocally flows from and sustains increasing efficiency and technological change, concentration of the means of production, and pervasive commodification. Hence the limiting of markets and competition under socialism means that these other elements will have to be induced by other means, which may or may not be possible. The effort to induce greater efficiency and technological change, for example, was one of the perennial failures of the Soviet economy (Hewett 1988).

Similarly, as competition both directly and indirectly sustains commodification, the attenuation of competition creates the potential for a "de-commodification" of labour.

Since the profit orientation of entrepreneurs in capitalism generates actions that tend towards a levelling of profit rates across sectors, the absence of that orientation implies the creation of niches that can easily generate "super-profits" for petty entrepreneurs. Hence there is no tendency within the economy that can "naturally" eliminate self-employment and sustain the commodification of labour. Maintenance of a salaried labour force thus requires that "artificial" steps be taken, usually in the form of legal restrictions on the "second economy."

To summarize to this point, the socialist economy links firms along lines of authority that converge within the state, though not at a single point within the state. The profit motive which reigns under capitalism is replaced within an entirely different system of motivation, which has implications for such questions as technological progress and labour commodification.

As the socialist economy described here is fast in the process of disappearing from the face of the earth, it is tempting to conclude that the system was a failure, and that the attraction of Sandinista leaders to many aspects of the system was simply irrational. But the overall balance sheet is far more complicated. Socialism's administrative structures allowed central authorities to function as a "spotlight," to use Hewett's simile (1988, 168). That is, they could bring tremendous attention and resources to bear upon specific points in the economy. This ability to concentrate energies was manifested in Stalin's 1930s industrialization drive, a drive responsible for much of the respect for Soviet socialism throughout the Third World. The socialist economy, it appeared, was indeed the appropriate vehicle for "catching-up"³⁵.

³⁵Some modern-day Soviet reformers reject this view of Soviet history as mythical. Shmelev and Popov recalculate Soviet economic growth statistics and come to the conclusion that the end of the New Economic Policy (NEP) brought a fall in the economic growth rate (1989, 41). This accords with their view that the NEP period was the golden age of the Soviet economy.

Less polemical historians disagree. Nove argues that the growth of the NEP period was generally based on excess capacity, and that gross investment was barely able to cover depreciation (1973, 125ff). E.H. Carr comments that the balance sheet of NEP in respect of industry was highly disquieting. It had stimulated those primitive and backward local industries which tend to be superseded in any advanced economy; it had failed altogether to help the heavy

On the other hand, this virtue of the socialist economy presumes that there are significant unused resources waiting to be "concentrated" by central authorities. Thus, it is commonly argued that the "fit" between the socialist economy and the requirements of the Soviet industrialization drive reflected both the relative backwardness of the Soviet economy, and its significant reserves of labour and natural resources. Critics of existing socialist economies have long argued that it is unable to manage the transition from this type of "extensive" growth, to "intensive" growth based on increased factor productivity³⁶. Thus, where extensive surplus human and physical resources are not available, the socialist economy as it has existed in our time is probably not the path to catching up.

G. Conclusion

Joan Robinson has noted that this century saw a redefinition of socialism from a stage beyond capitalism [to] a substitute for it - a means by which the nations which did not share in the Industrial Revolution can imitate its technical achievements, a means of achieving rapid accumulation under a different set of rules of the game (cited in Brus and Laski 1989, 18).

This chapter has stressed the gap between Marx's "transcendent" socialism and "catch-up" socialism, as well as the political and technical obstacles to the latter. It has been argued that the analysis of Marx himself suggests that the link between catch-up socialism and authoritarianism may not be accidental. Finally, the chapter offered a brief presentation of the catch-up socialist model, which will aid us in evaluating the relation of the Sandinista project to that model in later chapters. We now turn to the relation between Marxism and the Sandinista leadership.

industries, the essential key to industrial progress... (1960, 11). In this view, the NEP period and that of the industrialization drive do not bear comparison, as the latter period brought a pace of quantitative growth and qualitative "deepening" of industry unparalleled in history.

This affirmation is in no way contradicted by recognition of the irrationalities and of the great human costs associated with the period. Denial of the achievements of the 1930s, on the other hand, seems motivated by the desire to believe that the human suffering of the period entirely reflects the perversities of Stalinism, and is unrelated to any inherent dilemmas within the catch-up socialist project.

³⁶See e.g. Goldman (1964) and Selucky (1972, 4).

Chapter 3: The Ideology of the Sandinista Leadership

Firearms are essential, but ideology is the very life of the revolution.

Tomás Borge (1984b)

The foregoing reflections on the nature of catch-up socialism are of relevance to the Nicaraguan case because, as will be argued in the next chapter, the FSLN's initial policy choices regarding such questions as agrarian reform, relations with the bourgeoisie, formation of the state sector and price policy, were influenced by the drive for a state-dominant economy with important resemblances to the traditional catch-up socialist economy. From whence came such an orientation? This question brings us to a consideration of Sandinista ideology.

This chapter will examine the ideology of the FSLN's nine-man National Directorate. I will use "ideology" in the sense of an "ism," that is, a "subjectively coherent set of political beliefs" (Braybrooke 1967, 4:124). More specifically, the chapter will focus on those aspects of the leadership's ideology that might have affected their domestic political and economic policies once in power. Hence it will not examine the ideological roots of the Sandinistas' strategy for assuming power, nor of their foreign policy stance, except where it bears upon the immediate object of study. The central argument of the chapter is that the FSLN came to power shaped by a Marxism much more orthodox than has been recognized or admitted by many observers. Despite their flexibility once in power, this initial orientation had a great influence on their initial policy choices, which in turn influenced the entire course of the Sandinista decade.

The first part of this chapter will argue that any study of the relation between Sandinista ideology and decision-making must focus upon the FSLN's National Directorate, since that nine-man body was the undisputed apex of power within the party and the state. Part B will consider the argument that Sandinista ideology was the product of a convergence of Marxism, Christianity, and the nationalism of Sandino. I will argue that the contribution of the last two elements of this "convergence" to the Sandinistas'

domestic policy decisions was limited.

The third part of the chapter will examine various orthodox Marxist themes found in the discourse of the Sandinista leadership. I will argue that the presence of such themes as vanguardism and superstructuralism, as well as the leadership's stated positions on such questions as democracy and the market, are all consistent with the view that the leaders were influenced by orthodox Marxism.

Part D will note the stress placed on ideological training both within the FSLN and in society at large. I will argue that this indicates that the leaders did not merely "happen" to be Marxists, but rather that they took their ideology quite seriously, as the epigraph to this chapter indicates.

The fifth part of the chapter will consider the argument that the FSLN tendency led by the Ortega brothers was not orthodox Marxist but "social-democratic." I will argue that the pre-1979 writings of Humberto Ortega, chief strategist of the FSLN victory, clearly demonstrate an orthodox Marxist self-understanding. Ortega's writings also present a two-stage vision of the revolution, in which an early "democratic-revolutionary stage" will give way to a "socialist" phase. This vision will provide an important explanation of some policy decisions in the post-1979 period.

Section F will consider objections to the foregoing argument. The final section will consider Sandinista ideology as a "way of seeing," illustrating how the Sandinistas' outlook affected their views on one specific question, relations with the peasantry.

Though it may appear so to conservative or liberal readers, to say that the Sandinistas entered power as orthodox Marxists, or as "Marxist-Leninists," is not an accusation. Rather, it corresponds to many of the leadership's statements on its own ideological background. As stated in the first chapter, by "orthodox Marxism" I mean the orthodoxy traditionally promoted by the Soviet Union, and periodically codified in such manuals as the various editions of Political Economy issued by Progress Publishers. This orthodoxy is often termed "Marxist-Leninism," though its relation to the actual thought of

Marx or Lenin has been the subject of endless debate. It is characterized as much by its form as its content: the systematization of the manuals tends to erase tensions in the original thought of Marx or Lenin. Thus, one can say that, as catechisms are to the Bible, so the orthodox manuals are to the Marxist classics.

Orthodox Marxism has historically been taught to thousands of cadre and millions of students throughout the world. For many, it is the only Marxism they have ever known. As John Saul notes, it has been influential for Third World socialism, "disseminated by the 'eastern allies' of the young socialisms through numerous manuals, teachers and ideological advisors" (1986, 147).

To say, then, that the Sandinista leadership was influenced by orthodox Marxism is to say that they received cadre training based upon the standard manuals, generally in Cuba, and that this training "took" to some degree. Prior to 1979, most Sandinista leaders had extended stays in Cuba¹. As Bayardo Arce later put it, Cuba "was the only secure land where the Sandinista leaders could heal their wounds in order to continue the battle" (B 07-01-84). Many of them received military and political training there. Humberto Ortega would later comment that the Sandinista leadership was trained in the manuals "from very early on," and that "We had great respect for those manuals" (1991).

The fact that the orthodoxy to which the Sandinistas were exposed was mediated through Cuba was of vital importance. The training they received was not hostile to revolutionary voluntarism, to Guevara's view that "One does not have to wait for the revolutionary conditions to be given: the revolutionary group can create them" (1985, 1:2).

As was noted in the introductory chapter, to say that the Sandinistas were influenced by orthodox Marxism does not mean that they did not demonstrate flexibility. The thesis rejects the view that ideological commitments imply dogmatic rigidity. In fact, the Sandinista leaders demonstrated a remarkable capacity to reflect upon their fundamental project and modify it on the fly. But flexibility must always start from

¹See, e.g. (B 13-08-79); Nolan (1984, 34); (END 24-10-87); Fonseca (1985, 1:262, 1:271); Rothschild (1983, 33); Borge (1989, 153, 194).

somewhere: it is not enough to say that FSLN leaders have been flexible, one must also identify the framework within which that flexibility operates. Just as the position of a moving object depends upon the direction and speed of its movement as well as its starting position, so too did Sandinista ideology at any given moment reflect not only its "movement" or flexibility, but also its starting point.

In more recent years, Sandinista leaders have been willing to discuss this struggle between flexibility and their original ideological framework. In a 1988 interview with the Wall Street Journal, Tomás Borge commented that "I'm fighting against my own orthodoxy" (16-05-88)². Similarly, in an interview with an Italian paper, Borge commented that "for a long time our outlook was orthodox... Yes, we considered ourselves Marxist-Leninists and had in mind a communist society. We did not like the social democracies..." (rpt. FBIS 26-02-88). After the election defeat, former Vice-President Sergio Ramírez would describe the FSLN in power as

trying to get away from theoretical schemes and prejudices, away from the self-proclaimed, eternal truths; struggling to abandon models and create our own path (1991, 25).

Even in 1991, it appears that this struggle was continuing. Speaking to the FSLN's first party congress, in July 1991, Humberto Ortega commented that :

It is more difficult to be a revolutionary... when it is necessary to come together, to find common ground with the classes and social sectors that the Marxist manuals -- with which we were trained from very early on -- said must be crushed. We had great respect for those manuals, and we were guided by them in the past, but now they are being subordinated to the real dynamic of practice, and obligated to find new positions, and we can no longer, therefore, be mechanically or rigidly guided by them" (1991).

This struggle between flexibility and the leadership's original orthodox framework made Sandinista practice a good deal more "liberal" than many of the statements which will be cited in this chapter might suggest. Despite the leadership's stress on the need for ideological control, La Prensa and other opposition media survived, though under

²The interviewer added that Borge "says that he once was a doctrinaire Marxist-Leninist, but that the trials of running this beleaguered country have taught him flexibility."

restrictions. Much education remained in church hands. My personal experience at the National Autonomous University of Nicaragua suggested that ideological controls at the university level were not nearly as rigorous as the leadership had often suggested they should be. Despite their emphasis on ideological struggle, the Sandinistas left their opponents a great deal of room to act, and Nicaragua was one of the few countries in the Latin America of the 1980s where people were willing to criticize the government publicly³. Despite their oft-stated views of formal democracy, and their promise that state power would not be "raffled off" in elections, the Sandinistas held widely-respected elections in 1984 and 1990, giving up power in the latter year in obedience to the rules of the formal-democratic game.

A. The FSLN's National Directorate

When one inquires into the ideology of the FSLN, exactly whose ideology is one examining? The answer to this question will determine what sort of material can be admitted as evidence for the study. Could one approach the question, for example, through a survey of party members? Or through in-depth interviews with FSLN cabinet ministers?

Since our purpose is to examine aspects of Sandinista ideology that may have influenced policy decisions, we will focus on the ideology of key decision-makers. For this reason, the study will focus on the National Directorate and its nine "Commanders of the Revolution"⁴. Tomás Borge commented in 1984 that "No fundamental decision is

³I was continually surprised by the willingness of total strangers to offer me all their complaints concerning the government. When we moved into a new *barrio* in 1985, our next-door neighbour introduced herself saying "Pleased to meet you. Isn't this the worst government you've ever seen?"

⁴More specifically, the study will examine the nine leaders during the FSLN's decade in power. After the FSLN lost power in 1990, the Directorate was reduced to seven members with the death of Carlos Núñez and the decision of Humberto Ortega to resign from the Directorate in order to retain his position as head of the armed forces under the Chamorro administration. In the July 1991 Congress of the FSLN, two new members were elected to the Directorate. The Congress also changed the structure of the FSLN, ending, on paper at least, the dominance of the Directorate.

taken in this country except by the National Directorate" (1984b, 141)⁵. Though the Directorate was subject to many influences, Borge's statement is quite accurate: a decision of the Directorate was a decision of the party.

This does not mean the Directorate did not operate under constraints from within the party as a whole. But the FSLN was a democratic-centralist organization. As Directorate member Carlos Núñez stressed in 1979, "unhesitating obedience to the orientations of the central and intermediate organizations" is a condition for party membership (B 11-12-79). One of the oft-repeated slogans at FSLN rallies throughout the 1980s was "National Directorate, we await your orders"⁶. Those on the second level of the FSLN, the Sandinista Assembly, were appointed by the Directorate, and had no power of veto over Directorate decisions. Thus, in considering the impact of ideology upon decision-making, the ideology of the FSLN cannot be equated with the "average" ideology of its members.

As the National Directorate dominated the party, so did the party dominate the government. The June 1979 Programme of Government clearly recognized that the executive branch of the new government, the Government Junta for National Reconstruction, had been formed at the behest of the FSLN (rpt. JGRN 1980, 31). The proto-constitution of the revolutionary government, the Fundamental Statute, also noted that the members of the junta were "designated by the revolutionary movement" (JGRN 1979-1988, 1:4).

There could thus be little doubt concerning the preeminent position of the FSLN in general and of the National Directorate in particular when the new government took

⁵On another occasion, Borge commented that
The state coercive bodies -- the Army, the Police and the state security bodies -- are in the hands of the Sandinistas, who also have the support of the masses, the mass organizations... We can do whatever we want with the power we have. We can remove the government and replace it with another if we like (1980c).

⁶"Dirección Nacional, ordene."

power in July 1979⁷. The government junta regularly recognized this preeminence in its decrees. Thus, for example, after Humberto Ortega's August 1980 announcement, on behalf of the Directorate, that elections would not be held until 1985 (H. Ortega 1980) the junta ratified the decision, in a communiqué that reaffirmed the fact that junta members were "convoked by the National Directorate of the FSLN to form this executive body of the Government" (B 16-09-80).

B. Sandinism as an ideological convergence?

In reading secondary sources on the Nicaraguan revolution, one is struck by the wide variety of views concerning Sandinista ideology. We may begin with some general impressions, before examining the positions of those who have studied the Sandinistas in more depth.

Conor Cruise O'Brien (1986, 69) argues that

Within the Sandinista complex, nationalism and commitment to the cause of the exploited are, as it were, 'required' subjects. Marxism and revolutionary Christianity are optional, at least as far as the rank and file are concerned. And even if all the nine comandantes are Marxists, as has been widely believed, their Marxism is still their own homemade version, not one made in Moscow.

I believe that Marxism -- even of the homemade variety -- is now recessive within Sandinismo, and that the Christian revolutionary element is becoming dominant.

Another visitor to Nicaragua describes Sandinismo as "the blending of Marxist political thought with the social gospel present in Liberation Theology" (Graham 1987,

35). A student of the Nicaraguan economy writes that

The Nicaraguan government did not consider itself or call itself a 'Marxist' government during the first five years, and there was no indication at the fifth anniversary that it intended to do so (Conroy 1985, 236).

There are important differences on this question even among the more extensive studies of the Sandinistas. John Booth (1985, 146-47), for example, holds that

The Marxist-Leninist vein predominated in the FSLN until the mid-1970s, when the rapid alienation of ever broader sectors of the Nicaraguan people

⁷Even the final surrender of Somoza's National Guard was "drafted jointly" with a member of the Directorate. (OAS 1987, 201).

brought many non-Marxists to the FSLN's door.

He goes on to note that "the FSLN's rhetoric changed" at that time, and that leaders adopted "an extremely pragmatic program stressing a mixed economy and political pluralism." Thus, he argues,

one must conclude that the ideological evolution of the FSLN was profound. Nicaragua's Sandinistas had developed a new Marxist revolutionary program that retained such Leninist features as a mobilizing vanguard party and profound socioeconomic transformation to benefit the working classes but was also innovative in that it institutionalized political opposition, preserved a large private sector, and established civil liberties⁸.

Vanden's short study on Sandinista ideology concludes that it is "a very flexible and nonsectarian Third World Marxism that was carefully applied to the specific conditions in Nicaragua" (1982, 57).

David Nolan, a Reagan State Department official who wrote the first book-length examination of Sandinista ideology, believes that they were most influenced by

Nicaragua's historical tradition of political violence, the heroic image of the anti-North American guerrilla leader Augusto César Sandino, the Marxism of the student subculture, and the example of Fidel Castro's revolution in Cuba (1984, 13).

Nolan, unfortunately, is unable to explore in any depth the specific impact of these various elements upon Sandinista ideology. Of Marxism, for example, he writes that it "enabled them to stop wondering why things were the way they were, and to devote their energies to revolutionary action" (Ibid., 19)⁹.

⁸One sees here the danger of an overly broad conception of ideology. Booth lumps together, in his consideration of FSLN ideology,

- (i) rhetoric;
- (ii) political programmes, which FSLN leaders acknowledge are adopted in large part as a political tactic (e.g. H. Ortega 1981);
- (iii) the beliefs of some of those who were 'brought to the door' of the party in the mid-1970s (none of whom reached the highest level of the party); and
- (iv) the various compromises the FSLN had to accept in order to seize and maintain power (political pluralism, etc.).

If all of this is ideology, then what is not ideology?

⁹Though Nolan seeks to do a careful study of the Sandinistas, he merely proves that one cannot analyze a Marxist movement without understanding something of Marxism itself. In the key chapter of his book, in which he analyzes the "major themes" of Sandinista ideology, one finds such statements as:

The Sandinistas fundamentally differ from Karl Marx and modern social scientists on the socioeconomic class theory of revolutionary causation.

Donald Hodges' work on the "intellectual foundations" of the FSLN is a careful study of the thought of Sandino, and of the various Marxist currents that influenced the FSLN. Hodges concludes that

The ideology of Sandinismo is a composite of the national and patriotic values of Sandino and of the ethical recasting of Marxism-Leninism in the light of the philosophical humanism of the young Marx. At the same time it coexists with other independent social and political doctrines (1986, 288).

Running through these various interpretations are three candidate ideologies which may have helped shape the FSLN's outlook: Marxism, Christianity, and the nationalist thought of Sandino. Some observers have argued that Sandinista ideology is the result of a "convergence" of these three components (Gorostiaga 1986, 52f). This notion of convergence has occasionally been supported by statements of the leadership. Thus, in a 1985 speech Bayardo Arce defined the "political-ideological experience" of the Nicaraguan revolution as a convergence of "three great historic currents of humanity": nationalism, Christianity, and Marxism (1985, 46). I will argue, however, that at least with regard to domestic policy issues, the FSLN's outlook was fundamentally shaped by Marxism.

Three points should be borne in mind when contrasting this argument with those put forth by other observers. First, it is possible that an evaluation of Sandinista ideology that did not focus only on domestic policy might give greater weight to the influence of Sandino's nationalism. Second, part of the divergence between this analysis and that of other commentators may reflect my focus on the leadership. Hodges, for example, seems to understand Sandinista ideology as the blend of ideologies held at various levels of the FSLN and its related mass organizations. This allows him to assert that Sandinism has parallel currents, "the one popular and folkloric, the other intellectual and systematic" (1986, 185). While this interpretation is acceptable given the broad implicit definition of

Objective class inequality is irrelevant. The fact that the poor are more numerous than the rich... in all capitalist societies is not sufficient cause to assume that they will make a revolution (Ibid., 119).

It would be interesting to know of a single statement by Marx, or by any "modern social scientist," for that matter, suggesting that the numerical preponderance of the poor is sufficient cause for revolution!

Sandinism, it does not distinguish the likely impact on policy of the two currents, nor does it distinguish between the "popular and folkloric" elements that the leadership drew upon instrumentally in order to mobilize grass-roots Sandinistas and the "intellectual and systematic" elements that informed its own outlook. Xabier Gorostiaga casts his net even wider. For Gorostiaga, Sandinism "transcends the organizations that carry [the name of Sandino]" --i.e. the organizations of the FSLN (1986, 53). With such an approach, one can say pretty much anything one wishes about Sandinista ideology.

A third and final factor explaining the difference between the evaluation of the Sandinistas presented here and that of others is that much material on Nicaragua was written in a politically highly-charged moment. The Reagan Administration was seeking to destroy the Sandinistas, and one means towards that end was to draw upon the vision of demonic Marxism that dominates the United States political mainstream. Faced with this situation, those who sympathized with the Sandinistas prudently chose to downplay the Marxist nature of the FSLN (when they were aware of it themselves). I feel that these writers made a politically responsible choice to present the Sandinista revolution in the best light, by seeking to by-pass the "knee-jerk" anti-Marxism of mainstream United States political culture. The political cost of this choice, of course, was that it allowed many key postulates of the United States Cold War outlook to persist unexamined.

Bearing these three reflections in mind, we may now examine the possible contributions to the Sandinista outlook of Sandino and Christianity. To what extent did Sandino's ideas permeate the outlook of the FSLN leadership? Would their domestic policy decisions have been affected by Sandino? I would argue not, for two reasons.

The first is that Sandino had no clear social program. The section of Fonseca's booklet of Sandino's thoughts entitled "Program for social problems" is exceptionally vague, with statements such as "the worker should not be humiliated or exploited," and "Let each person be a brother and not a wolf" (Fonseca 1985, 2:176ff). Where he

expressed opinions on concrete social issues, these were often contradictory¹⁰.

This does not mean that Sandino was a pure nationalist with no interest in social questions, as claimed by some critics of the Sandinistas (e.g. Alaniz 1985). Sandino's nationalist rhetoric was articulated to a strong class rhetoric. He proclaimed his goal to be the "redemption of Nicaraguan workers and artisans" (1984, 1:167). He attacked the "rotting and rancid Nicaraguan aristocracy, comprised of degenerate traitors" (Ibid.), declared that "capitalists are identified as enemies of our army" (Ibid., 2:205), and dismissed landowners as a "herd of pigs" (Ibid., 1:134). In a phrase that was frequently cited by FSLN leaders in the 1980s, Sandino declared that "only the workers and peasants will persevere until the end, only their organized force will guarantee victory" (Ibid., 2:72). Sandino's army was, emphatically, a force of workers and peasants. Nevertheless, Sandino's social orientation did not translate into a clear programme that might have influenced the Sandinistas' domestic policy choices.

Second, the way in which FSLN leaders themselves speak of Sandino suggests that his impact on their social thought was quite limited: Sandino was a "myth," a "symbol" (Borge 1984a, 163, 141). The leaders stress that their theory came from elsewhere¹¹. When they speak of the "lessons" of Sandino, these are invariably lessons they also learned elsewhere. Thus, Jaime Wheelock holds that Sandino taught them the need for armed struggle, and to depend on workers and peasants (B 19-05-80). Tomás Borge attributes the same two lessons to Sandino (1984a, 57). Victor Tirado says that Sandino taught the FSLN the need for a vanguard (1986, 49).

If Sandino did not give the FSLN a clear programme, he did provide them with a rich rhetoric for mobilization. FSLN founder Carlos Fonseca was the prime force behind

¹⁰In his interview with Belausteguigoitia (1981, 182ff), for example, Sandino remarked that: i) not having land was not a serious problem for Nicaraguans; ii) he had no "difficulties" with the idea of giving land to those who did not have it; iii) he thought land should belong to the state; and iv) land should be developed in cooperative form along the Coco River in the North. Elsewhere he expressed an interest in developing agrarian cooperatives (Román 1983, 108; Sandino 1984, 2:245).

¹¹See Arce (H. Ortega et al 1986, 14); Borge (1984a, 163); Ruiz (1982).

the young movement's appropriation of Sandino. Fonseca fought to have the word "Sandinista" included in the group's name, winning the issue over those suspicious because Sandino's name had already been invoked by the Conservative opposition to Somoza (Borge 1984a, 25). Fonseca was deeply concerned with finding a national vocabulary within which to express Marxist conceptions. The appropriation of Sandino, then, gave the FSLN a "concrete myth" (Borge 1984a, 163). This "myth" came with an arsenal of invaluable linguistic resources. Rather than citing Lenin on the importance of a vanguard, FSLN leaders could, and did, repeat Sandino's statement that

if Nicaragua had 100 men who loved her as much as I do, our nation would restore its absolute sovereignty (1984, 1:79).

In their endless discussions with Nicaraguans on the need for armed struggle to overthrow Somoza, the Sandinistas could intone Sandino's declaration that "Freedom is not conquered with flowers, but with bullets" (Ibid., 2:203)¹².

Fonseca brought together a booklet of quotes from Sandino, analogous to Mao's little red book. The quotes were grouped under such headings as "The anger of the people" and "Yankee imperialism and the U.S. people" (Fonseca 1985, 2:171ff). Study of the booklet was an important part of the political training of FSLN cadres. The legacy of Sandino was an important resource for building a spirit of perseverance within the movement¹³. The legacy would continue to be stressed in the training of cadres during

¹²When the FSLN split into three tendencies (see below), Sandino was even used as a linguistic resource for each faction. Fonseca, an adherent of the rural "prolonged popular war" faction, held that Sandino's movement had a predominantly peasant base (1985, 1:156). The "proletarian" Wheelock referred to Sandino's "proletarian army" (1978, 116, 119). Humberto Ortega argued that Sandino, like the insurrectional tendency Ortega led, had correctly identified the immediate enemy and the "fundamental contradiction" of his time (1987, 291).

¹³Sandino's life has all the elements of a morality play. A migrant worker in Mexico, Sandino returns to Nicaragua after a colleague there tells him that all Nicaraguans have "sold out their country" because they have not evicted the United States Marines, then occupying Nicaragua. Sandino becomes a Liberal leader in the civil war against the Conservatives, but refuses to lay down his arms after what he calls a "treasonous" pact.

The head of the Liberal forces, General Moncada, tries to talk sense to him: No man, why are you going to sacrifice yourself for the people... the people are ungrateful... I tell you on the basis of my own experience... life ends and the homeland remains... the duty of every human being is to enjoy life and live well... without worrying about things (Sandino 1984,

the 1980s¹⁴.

This does not mean that the FSLN leadership's relation to Sandino was entirely instrumental. For many FSLN leaders, Sandino helped prepare a spirit of rebellion. The father of the two Ortega brothers fought with Sandino, and was imprisoned in 1933 (D. Ortega 1987c; Valenta and Valenta 1987, 8). Borge's father was also a friend of Sandino (Borge 1989a, 75), and gave his son books on Sandino to read (Borge 1979, 233).

Thus, Sandino inspired some of the Sandinista leaders to struggle, and the invocation of his spirit and legacy played an important role in the formation of the movement's cadres and in appeals to Nicaraguan society at large. Nevertheless, Sandino's ideas had little influence on the domestic policy decisions the FSLN leadership would make upon taking power.

The case for a Christian influence upon the outlook of the leadership seems even weaker. Though Christianity did influence some of the Sandinista leaders in their youth¹⁵, none of the Directorate members defined himself as a Christian when the FSLN

1:98; elisions in original).

But Sandino rejects this siren call, and goes on to become the "General of Free Men." After his meeting with Moncada, analogous to the temptation of Jesus in the desert, Sandino also undergoes his 'agony in the garden': "We are alone, the cause of Nicaragua has been abandoned." This phrase is included at the very beginning of Fonseca's collection of Sandino's sayings, which gives one a sense of Fonseca's psychological objectives. Immediately after, Sandino declares "we must convince ourselves that we are alone, and that we have no other choice but to triumph or die" (Fonseca 1985, 2:172).

One sees here the creation of that "memory that moves people to action, to firmness, to the intransigent defence of revolutionary principles," as Tomás Borge puts it (B 03-05-84). The memory seeks to activate within the militants the same shame that Sandino felt, and prepare them for the temptations to be met along the road.

¹⁴Judson (1987) notes that "The theme of continuity with Sandino is pervasive in the political education of FSLN militants, members of the armed forces, and personnel of state security."

¹⁵Fonseca, like Borge and Daniel Ortega, was actively religious in his youth (Rothschuh 1983, 17; Borge 1989a, 41; D. Ortega 1987c). Like the Sandino story, Christian ideals may have helped prepare the psychological terrain for revolutionary activity. The Christian injunctions to love, to win one's life by laying it down, to give all one has to the poor, can all help nurture the generosity of spirit that will make one open to a radical political involvement.

Directorate member Luís Carrión came to the FSLN in the early 1970s through involvement in a Christian community in a Managua barrio. Ironically, however, those who entered the FSLN from this community formed the nucleus of Jaime Wheelock's "ultra-orthodox" FSLN faction, the "proletarian tendency." Catholic priest Uriel Molina

took power¹⁶, though to do so would have been highly convenient in a predominantly Catholic society.

Certainly Christian thought was not a privileged "organizational glue" within the movement: FSLN cadres were never trained in any branch of Christian thought, the way they were trained in Marxism and the thought of Sandino. For a movement that gave great importance to ideological training (see below), this point is significant.

Even those who argue that Christianity was an important influence upon FSLN ideology are quite vague as to the nature of that influence. Thus, Basque Jesuit Xabier Gorostiaga, head of CRIES, a Managua research institute, seems to identify the contribution of Christianity to Sandinista ideology as consisting of some vaguely defined "logic of the majority" (1986, 53). This "logic" appears to be little more than a "basic needs" approach:

Our first objective is to satisfy the basic needs of the majority of the population. This creates a new logic which we call the "logic of the majority," i.e. the logic of the poor. Instead of organizing the economy from the perspective and interest of the top 5 percent, as was done during the Somoza dynasty, we are trying to organize the economy from the perspective of the majority (Gorostiaga, cited in Ryan 1982).

But to say that the Sandinistas pursued the interests of the "majority" rather than the interests of the "five percent" tells us very little. In what way, for example, did the "logic of the majority" dictate the choice of state farms, rather than cooperatives or small-scale production?

What Gorostiaga failed to note was that the "logic of the majority" was, and had to be, an "imputed" logic, analogous to Lukacs' "imputed class consciousness" (1971). That is,

would later comment of the community that "The proletarian front was practically born there" (Randall 1983, 118). The fact that members of a Christian community should form the most pedantically Marxist branch of the FSLN exemplifies the dialectics of personal trajectories and the fact that ideological affinities are not constant over time.

¹⁶Christian activists with whom I was in contact often said that there were no Christians in the Directorate. I was staying with a group of such activists in August 1982 when a particularly serious clash with the Catholic bishops took place. The activists, many of whom were highly placed within the government, expressed the frustration that the FSLN's clumsy handling of the situation reflected the absence of Christians at the highest level of the party.

the Sandinista leadership believed it pursued what the majority would want if that majority correctly understood its objective interests. I will return to this point below, in examining Sandinista vanguardism.

Appreciation of the relation between Christianity and the Sandinista leadership has been impeded by two factors. The first is that the FSLN reached out to Christian activists in the early 1970s. Henceforth, religious belief would be no bar to membership in the FSLN, unlike other parties of Marxist-Leninist inspiration. Indeed, priests such as Miguel D'Escoto and the Cardenal brothers formed an important part of the FSLN's public face, particularly before coming to power. This was an important innovation that testifies to Sandinista flexibility, and it may have given some observers an exaggerated sense of the influence of Christianity within the leadership itself.

A second complicating factor was the FSLN's frequent use of religious imagery and allusions. The Sandinistas frequently made use of religious language, resolutely rejecting Lenin's view that "any flirtation with a God is the most inexpressible foulness" (1969, 40), perhaps because most Nicaraguans were baptized Catholics, and because the Right for its part had never hesitated to manipulate religious symbols¹⁷. Jesuit priest Peter Marchetti noted that Sandinista leaders

found themselves using the Christian symbol system during the insurrection in order to motivate people to follow them. They found that Christian beliefs were powerful in mobilizing the poor against tyranny

¹⁷In the 1930s, the bishop of Granada blessed the arms of United States Marines fighting against Sandino. The daughter of the first Somoza was crowned "Queen of the Armed Forces" in the Managua cathedral, in a ceremony presided over by the bishops of Managua and Granada (Gispert-Sauch 1981, 60). At his funeral, Somoza Sr. was called a "Prince of the Church" by an admiring bishop (FBIS 12-03-80). Even the contras were not ashamed to enlist God and the church for their cause. The contras' radio station began its broadcasts "Without communism, without Somozism, with God and patriotism, this is Radio 15 September" (JPRS 78573). In a felicitous articulation of spiritual and material concerns, the same radio station defined Sandinista communism as denying "the existence of God, the soul, spirit and private property" (JPRS 78215). In 1983, the contra circulated posters claiming "The Pope is with us." Though ever sensitive to perceived FSLN manipulation of religion, the bishops did not criticize this contra practice. In a 1982 interview with the author, Bishop Salvador Schlacter referred to the contras as "freedom fighters." In general, the bishops refused to comment on even the contras' most outrageous attacks on civilians.

(1982, 51).

After taking power, The FSLN continued to blend religious and revolutionary symbolism.

An opponent of the FSLN complained of a Christmas poster featuring

a new-born child surrounded by a peasant, a worker, and a militia-member with a gun. The slogan of the poster was "Christmas--the Birth of the New Man," and in lower letters "Christmas in Free Nicaragua" (Belli 1982).

There was also a religious permeation of revolutionary rhetoric, particularly in the speeches of Tomás Borge¹⁸. Borge's rhetoric even led some observers mistakenly to speak of his "conversion" to Christianity (O'Brien 1986, 70). Thus, both the use of Christian symbolism and the presence of Christians within the FSLN served to exaggerate perceptions of the Christian influence on Sandinista decision-making.

To summarize then, I believe that neither the thought of Sandino nor Christianity was an important influence upon the domestic policy decisions of the FSLN leadership. Sandino's nationalism may have influenced foreign policy choices, and the Sandino legend was an important component in the "organizational glue" through which the leadership maintained unity and commitment. As for Christianity, one can only hold that it influenced "Sandinista ideology" if one wields an extremely broad definition of that concept, as does Gorostiaga.

C. Marxist themes in Sandinista discourse

As noted in the introductory chapter, the FSLN leadership was well aware of the need for discretion. The "essential problem of arbitrary connotations," as Directorate

¹⁸Borge's November 1979 eulogy of Carlos Fonseca is typical: Borge speaks throughout as if Fonseca is still alive, and is now omnipresent (1982). Thus, Fonseca is identified with the Christian resurrection story. In the same vein, Borge's lyrics to the "hymn" to Carlos Fonseca refer to Fonseca as "conqueror of death" and "bride-groom" of the new Nicaragua. In Christian symbolism, Christ is the conqueror of death and the bride-groom of his church.

Borge also uses quasi-religious rhetoric in a more aggressive fashion. Answering the criticisms of an opposition figure, Borge exclaimed "we expose these hypocrites, these Pharisees, those who yesterday sold Christ and today are willing even to sell their own mothers" (1980b, 13). When opposition figures charged the FSLN with weakening national unity, Borge proclaimed that there can be no unity with "the race of vipers of which Christ spoke" (LP 11-01-80).

member Bayardo Arce called it (H. Ortega et al 1986, 12), made the leaders careful in answering direct question concerning their ideology. A typical answer was that they are "Sandinistas," and that Sandinism is an ideology *sui generis*¹⁹. On other occasions they would indicate an ironic willingness to accept any label their opponents might wish to put on them²⁰.

Nevertheless, National Directorate members were also willing to offer the most fulsome praise of Marxism, indicating an acceptance of Marxism quite unlike their careful and qualified praise of the thought of Sandino or of Christianity. Thus, Victor Tirado termed Marxism "the most advanced thought of humanity" (1987), and ratified Lenin's opinion that Marx's thought "is all powerful, because it is true" (1986, 285). In 1987, Daniel Ortega declared that:

The history of Count Dracula, is the very history of the exploitation of man by man. Slavery, feudalism, capitalism, imperialism, all prolonging their existence at the cost of the blood of the workers.

The vampires had also made themselves owners of Nicaragua, when the adequate weapon to exterminate them had not yet been invented.

Not until, that is, Marx and Engels discovered the formula, and Lenin effectively directed its application, driving the spike into the heart of the monster.

Just as Michelangelo penetrated into the depths of human anatomy in order to mould his masterpieces, Marx and Engels penetrated and explored social phenomena from the beginning of history, resulting in the masterpiece which gave to the workers the ideological instrument that their class instinct demanded (1987a).

These statements are striking because they were made by Directorate members who had belonged to the "insurreccional tendency," precisely the FSLN tendency that many foreign observers insisted was not Marxist in orientation²¹.

¹⁹See, for example, Arce's first response in (H. Ortega et al. 1986, 11), and Borge (1981c).

²⁰Thus, Tomás Borge commented that Sandinism is anti-imperialism, and for Sandinism, the predominant classes are the workers and peasants. If this is Communism, well then, we are Communists (B 03-05-81).

In a 1989 speech, Daniel Ortega commented that "We are Sandinistas, we are Marxists, we are Marxist-Leninists, and whatever else one might wish to add" (1989b).

²¹The thought of the third leader of this tendency, Humberto Ortega, will be reviewed below.

But the foregoing statements tell us little about the type of Marxism by which the FSLN leadership was influenced. To clarify this, I will examine certain Marxist themes in Sandinista discourse. These themes are both "symptomatic" of Sandinista Marxism and they also point to some consequences of FSLN ideology for decision-making. I will focus on several themes here:

- a. vanguardism;
- b. democracy and political rights;
- c. superstructuralism;
- d. the market;
- e. the just society.

These "symptoms" are not symptoms of a "pathology," though a liberal or conservative reader might take them as such. Personally, I believe that all the positions discussed here are, in one way or another, problematic. But so too are the positions contrary to those discussed here. Thus, for example, the critique of formal, or "bourgeois," democracy easily loses sight of the extent to which that democracy can be an end-in-itself, even for non-bourgeois citizens. On the other hand, one cannot deny the oppression that can coexist with formal democracy, or the myriad ways in which that democracy can marginalize consideration of the needs of the vast majority.

The themes chosen are all relevant to the leadership's policy choices. They are not the central themes of classical Marxism, but all are important in orthodox Marxism, the language of Marxism in power. Because the language of Marxism in power is in part a language of justification, it is fair to ask whether the treatment of these themes in Sandinista discourse really proves that the leaders were influenced by orthodox Marxism. Might it not be the case that they merely employed an orthodox Marxist language to legitimate policy choices after the fact? I will take up this question below.

Some of these elements are held jointly by Marxists and some non-Marxists. Thus, for example, ² W. Rostow subscribes to a view of historical stages every bit as simplistic as that of orthodox Marxism. Non-Marxist elitism has strong affinities with

Marxist vanguardism²². Nevertheless, I believe that the overall treatment of the themes presented here is peculiar to orthodox Marxists.

The first theme is *vanguardism*. The very first issue of the party's official newspaper declared that "we Sandinista combatants... have made ourselves the judges and guarantors of the New Nicaragua" (B 25-07-79). Directorate member Bayardo Arce declared that

Our workers and peasants know that they cannot have an active and effective participation and cannot be protagonists of the Revolution, without having a solid vanguard like the FSLN (1980a, 35).

Though the leadership often declared its interest in "national unity," this unity was to be subordinated to Sandinista vanguardism. On the "Day of Unity," in early 1980, Tomás Borge declared that

There can be no unity with those who wish to maintain the rules of the game of the past, with those who are not aware that a revolution is only possible within the parameters laid out by the vanguard, the Sandinista Front (LP 11-01-80).

Vanguardism was necessary because of the backwardness of the Nicaraguan people. As Jaime Wheelock put it,

The worker has a class intuition, and knows who his enemies are, but from the point of view of knowledge he is in shadows (B 05-10-79).

"The people," Bayardo Arce commented, "do not have a real awareness of the limitations of the [revolutionary] process and the national reality" (JPRS 78503). One of the dangers of this lack of awareness was unrealistic expectations. Reactionary sectors, Humberto Ortega warned in June 1980, "will try to confuse the masses, making them believe that the problems, difficulties and errors of our Revolution can be solved in the short run" (B 05-06-80). We will see throughout the thesis that the leadership was particularly concerned

²²Without using the two terms, Gramsci does suggest a key difference between the ideologies of elitism and vanguardism, if not between their respective practices: is it the intention that there should always be rulers and ruled, or is the objective to create the conditions in which this division is no longer necessary? In other words, is the initial premise the perpetual division of the human race, or the belief that this division is only an historical fact, corresponding to certain conditions? (1971, 144)

by the problem of "backwardness" amongst the peasantry²³.

An unusual feature of Sandinista vanguardism, however, was its resolute opposition to the cult of personality. A decree issued by the new junta on its first day in power prohibited "the placing of photographs of officials serving the country in public places, or the use of their names to designate works serving the people" (Decree 2). Veneration was to be reserved for the dead, the "heroes and martyrs."

As was noted above, Marxist vanguardism differs from simple elitism by proclaiming its intention to transform the masses so that the vanguard might be self-extinguishing. Thus, Sandinista vanguardism was tied to a vision of mass transformation²⁴. As Daniel Ortega commented, "it is necessary for the people to go through a process of consolidation, transformation and popular democracy" (JPRS 76469). The FSLN, Carlos Núñez commented, used "propaganda, verbal and written agitation, [and] clear and persistent orientation that makes the masses learn and understand the scope of the revolution" (JPRS 75010).

The 1980 literacy campaign was seen as a key element in this transformation. Bayardo Arce declared that "we will be preparing our peasants and workers so that they will be able to increasingly exercise popular power," and junta member Sergio Ramírez commented that "The campaign is the expression of the revolution which aims to change everything" (JPRS 75434). The literacy crusade, Arce noted, "will become the biggest political seminar of Nicaraguan history," adding that "Its objective is not only to eliminate the illiteracy of thousands of people but to make them aware of the goals of the

²³The concept of backwardness also influenced Sandinista relations with the Atlantic Coast. The Miskito people, Tomás Borge commented in 1982, are "still the victims of their own backwardness" (FBIS 24-02-82).

²⁴In this, the Sandinistas clearly differed from their elitist opposition. Bishop Pablo Vega, an ardent opponent of the FSLN, commented in 1981 that they want to make the working class believe that they should exercise power. But the opposite is true: the working class does not want power. Workers want only to produce in order to change their social life, and to be able quietly to eat a bit of rice and beans in their humble homes (B 30-09-81).

revolution" (JPRS 75214). The vanguard was to be the agent of moral as well as intellectual transformation. The local Sandinista Defence Committees (CDS). Tomás Borge urged, should "promote morality" and "eradicate vice" (JPRS 75798).

A key aspect of the mass's development would be its increasing organization. Under the direction of the FSLN, a variety of mass organizations were formed, seeking to give every Nicaraguan at least one point of entry into the structures of the revolution²⁵. The vanguard was to lead a people, which, as Tomás Borge put it, is not "an amorphous sum of individuals, but a consciously organized people" (1981a).

As it developed, the people would understand its "objective" or "strategic" interests, and come to pursue these, as opposed to immediate demands²⁶. "The workers," Tomás

²⁵Thus, there were organizations for children (ANS), youth (JS-19), women (AMNLAE), barrio dwellers (CDS), rural workers (ATC), peasants (UNAG), etc.

²⁶This type of distinction has a long lineage within Marxism, the critique of which, I would argue, is essential for the renewal of Marxist thought. We may begin with the fact that Marx, though a "materialist," identified with that philosophical tradition, stretching back at least to Plato, that opposes truth and appearances. Science for Marx consisted of stripping away the illusions created by the empirically given, hence "all science would be superfluous if the outward appearance and the essence of things directly coincided" (1959, 817). While another type of thinker might contrast the empirically "given" with the constructed "concept," and attribute to both some share of "reality," Marx opposed the given and the concept as the "false" and the "real." This idealistic opposition is manifested, for example, in his comment that profit "rests on an illusion" (1973, 767), or that the rate of profit never expresses the real rate at which capital exploits labour, but always a much smaller relation, and the larger the capital, the more false is the relation it expresses (Ibid., 762; emphasis added).

Given this "deep structure" of thought, it is easy for Marx to oppose "real" and "false" people, classes, consciousness, etc. Thus, in his very earliest writings he will speak of "man as an alien being as distinguished from the real man" (1964, 20). Marx's "real" person is but an exemplar of humanity as Marx would like it to be.

Hence a duality is created: the person as she exists is in struggle with her "true" self; her "immediate" interests are in struggle with her "real, historical" ones. Plato established an analogous dualism (e.g. *The Republic*, 588c-d). And just as the Platonic scheme "has remained at the root of all theories of domination which are not mere justifications of an irreducible and irresponsible will to power" (Arendt 1958, 25), so too has the Marxist opposition of the real and the actually existing nurtured authoritarianism and worse.

Beyond opposing the "true" and the "given," another step was taken in the Marxist tradition: the "true" was in fact identified with another type of "given." Thus, "proletarian" ideas came to be those promoted by the Communist Party at any given moment (e.g. Guevara 1985 2:203; Ho Chi Minh 1967, 286; Mao 1977, 486). This identification was defended with the assertion that the party was the "organized form" of "correct class consciousness" (Lukacs 1971, 75).

At this point, the identification of the party's thought with "proletarian" thought becomes a seamless tautology. If the thought of actual workers differs from that of the

Borge urged, "cannot sacrifice their strategic objectives for immediate demands" (B 14-09-81). To do so, he added elsewhere, "would mean going against common sense and against history" (1985d, 25). And the main "strategic objective," as Victor Tirado pointed out, was nothing other than "the defence and growth of revolutionary power" (1987).

So long as the level of development of the people lagged behind the vanguard, however, the latter represented something like the "essence" or "soul" of the Nicaraguan people. "We the members of the Sandinista Front," Bayardo Arce declared, "are nothing more than the interpreters of the historic interests of the workers" (B 02-05-82). There was thus an immediate identification between the people and its vanguard. Asked in 1980 about elections, Humberto Ortega commented that

Our people already voted, on July 19 1979, with its weapons in its hands, and with the blood of 50,000 Nicaraguans. *Our people voted for itself, for Sandinismo* (B 11-07-80; emphasis added)²⁷.

In the same vein, Victor Tirado could begin a speech to workers by proclaiming that "The National Directorate has mandated me to speak in the name of the working class" (1986, 117).

This immediate identification of the people and its vanguard meant that the people held power because the vanguard held power. "The workers and peasants are in power," Bayardo Arce declared in 1980 (1980a, 29). Victor Tirado commented in 1987 that

Since the triumph, the Nicaraguan workers' movement has gained a very important experience, and has consolidated itself as the proletarian class. This class is State, Government (1987)²⁸.

party, this is owing to their "false" consciousness. Hence their class "instinct" must be "educated" (Althusser and Balibar 1969, 6). Marxists have thus travelled some distance from Marx's assertion, in his third Thesis on Feuerbach that "it is essential to educate the educator himself."

²⁷One of the slogan's of the FSLN's 1984 election campaign was "The people will vote for the people."

²⁸Such views could be held simultaneously with the awareness that the very "backwardness" of the people precluded its real exercise of power. Thus, the same Tirado recognized in 1980 that "The slogan 'power to the workers and peasants' will be just a phrase so long as they live in the midst of spiritual backwardness. Without education ["cultura"], no social class can govern a country" (B 29-08-80).

The assertion that workers already held power was also somehow combined with an acute awareness of the problem of "bureaucratism," which will be examined in later

The claim of identification between the people and its vanguard had a natural corollary in the leadership's conception of *democracy and political rights*²⁹. Defending the suspension of the right to strike in September 1981, Henry Ruiz asked

But strike against whom? Of the workers against the workers? Does not the Sandinista Front represent the interests of the workers? (B 14-09-81)³⁰.

Similarly, in his August 1980 announcement that elections would not be held until 1985, Humberto Ortega told Nicaraguans to

Remember that these will be elections to perfect revolutionary power, not to raffle it off. Because power belongs to the people, through its vanguard, the FSLN and its National Directorate (1980).

Even during the 1984 election campaign, Jaime Wheelock commented that

Sometimes it is said that we are not considering handing over power. Of course we will never hand it over, since we cannot hand over something that is not ours. Power belongs to the people... and we do not think the people will ever give it up (B 14-03-84).

Not surprisingly, the FSLN proclaimed its rejection of "bourgeois" democracy and freedoms. Daniel Ortega, for example, argued that traditional democracy "gave the privileged the right to exploit children, and gave ordinary people only the right to suffer sickness and hunger" (B 03-03-84)³¹. The vanguard's ability to interpret the people's strategic interests limited the need for traditional forms of political representation. "The government junta," Jaime Wheelock stated in late 1979, "does not need a congress to tell it

chapters.

²⁹Just as the FSLN's vanguardism affected its view of democracy, so was the rightist opposition's view affected by its elitism. An interesting example of this is a late 1981 declaration of the Democratic Conservative Party. The party proposed what it called a "planned democracy," in which all political parties would negotiate a plan of government. Elections would then be held, and the winning party would be bound to implement the plan. Thus, elections would merely determine the administrator of an elite-determined plan (JPRS 79928).

³⁰In the words of Tomás Borge, "In a revolution where the exploited have seized power, it does not make sense for them to issue demands" (JPRS 80320). (On the state of "economic and social emergency" declared in September 1981, see chapter five.

³¹The ever-blunt Victor Tirado informed a group of workers that old ideas of democracy were now obsolete, "although you, being workers, are not aware of this yet" (1986, 303).

what problems of the workers and peasants need to be solved" (JPRS 74490)³². Since the interests of the people were self-evident, those political parties that disagreed with the FSLN must be either "treasonous or ignorant," as Bayardo Arce put it (B 10-08-81)³³.

This view of "bourgeois" democracy led the Sandinistas to offer a wide variety of explanations of what democracy meant to them: it was the ability of people to "participate" in decision-making (Borge 1984a, 90); economic progress and hard work (Tirado 1986, 304); the arming of the people (Borge 1984a, 176); mass demonstrations, and meetings where candidates were ratified by a show of hands³⁴. When asked by their critics when elections would be held, FSLN leaders would reply with a stock "the people already voted," equating the 1979 uprising with an election of the FSLN over other alternatives³⁵.

In fact, democracy seemed to mean for the Sandinistas everything except the possibility that the people might throw the FSLN out of power. Carlos Núñez argued that "alternation in power" could not be contemplated, "because we cannot alternate power between the people and the exploiters" (1981).

The Directorate's most considered declaration on democracy was read by H. Ortega to the rally celebrating the end of the literacy crusade in August 1980:

For the FSLN, democracy is not measured only in the political sphere, nor is it reduced simply to electoral participation.
Democracy begins in the economic sphere, when the main social inequalities begin to be weakened, when the workers and peasants improve

³²Wheelock went on to state that "A government with the sole authority of the Nicaraguan people, of the revolutionary masses, will be exercised here for some time, even though it is opposed by those who want a Somozist-type congress to operate here once again."

³³In response to criticisms from the Democratic Conservative Party, Tomás Borge commented that "We were under the impression that the traditional parties were now no more than museum pieces off in some corner, in some dung-heap of history" (LP 11-01-80).

³⁴A declaration of the Sandinista Workers' Central (CST) was more colourful: Popular Democracy means tying up the hands of thieves, pulling out the tongues of demagogic politicians, repressing with a firm hand both opportunists and those who have infiltrated us, paid by imperialism in order to abort our process (B 13-12-79).

³⁵This argument is presented, for example, by Humberto Ortega (B 11-07-80), Daniel Ortega (B 02-08-79), and Borge (1985c, 173).

their standard of living. This is when true democracy begins. Before this, no (sic).

Once these objectives have been attained, democracy is extended to other spheres: it is extended to the sphere of government, when the people influences its government, when the people determines its government, like it or not.

Nevertheless, at a yet more advanced phase, democracy means the participation of workers in the management of factories, farms, cooperatives and cultural centres. In synthesis, democracy is the intervention of the masses in all aspects of social life (H. Ortega 1980).

The sequence of the statement is key: the people's control over government begins after "the main social inequalities" (i.e. class differences) have been "weakened"³⁶.

As with democracy, civic freedoms had to be in harmony with, not in opposition to, the revolutionary process. The government would neither "respect nor permit counterrevolutionary freedom," declared Bayardo Arce (B 31-01-80). Pluralism does not imply "freedom to exploit," said Daniel Ortega (B 20-12-79). This stand had particular implications for press freedom. The government, said Bayardo Arce, "will not permit reactionary groups to use the media to poison our people" (B 03-10-80). Tomás Borge, in the colourful language for which he was famous, declared that

Freedom of expression to tell lies, to hide the revolutionary truth, to bury the people in anonymity, to put on the front page those who dress up in red ecclesiastical garb: this freedom of expression will never exist in Nicaragua (B 20-05-82).

In rejecting a private sector request for permission to run a television station, Daniel Ortega stated that

in this country, communications media such as television will not be put in the hands of political interests whose intention is not exactly to support the Popular Sandinista Revolution. Here we have totalitarianism in favour of the people, in favour of the small and medium producers (B 20-12-79).

In the place of such "bourgeois" freedoms, the revolution offered "a popular democracy which guarantees the national majority the enjoyment of freedoms that are real, not abstract" (B 07-09-79). In the words of a declaration from the FSLN's National

³⁶Tomás Borge ratified this point, arguing that the new democracy which the FSLN wished to form in Nicaragua could not exist "in a society in which social inequalities still exist, nor in a society which reproduces the irrationality of the exploitation of man by man" (1984a, 168).

Secretariat for Propaganda and Political Education,

Bourgeois liberty has nothing to do with popular liberty, which reflects the objective interests of the people itself, its right to organize and arm itself, politically, militarily, and ideologically (B 14-03-80).

Thus, the content of various freedoms was to be reinterpreted. Traditional "Trade union freedom," Tomás Borge argued in 1982, "means the division of the working class... True freedom for the unions means the freedom to defend the interests of the working class" (rpt. Borge 1985d). This view of revolutionary freedom was given some codification in new laws, such as the decree on communications media (see chapter five).

The FSLN leadership's views of democracy and political freedoms were a subset of their broader *superstructuralism*, the tendency to understand in a deterministic fashion the relation between the economic "base" (and its attendant class interests) and the political, legal and ideological "superstructure" of a society. FSLN leaders have frequently displayed such a conception, often in connection with the legal system. Thus, Bayardo Arce asserted in June 1980, that

The laws are merely an expression of the political-juridical superstructure which defends and reproduces the economic structures of a society (B 22-06-80).

Arce went on to comment that new laws had not yet been developed in Nicaragua because

we have not yet developed a defined economic structure that would permit the creation of revolutionary legislation (Ibid.)

We will see in chapter five that superstructuralism provided the FSLN with an essential code through which it interpreted the bourgeoisie's demands for legal guarantees. Since such guarantees had not been demanded under Somoza, the argument went, it was clear that the bourgeoisie was now furthering its narrow class interests under the guise of concern for legalities and rights³⁷.

³⁷Superstructuralism was also expressed with respect to other phenomena:
Bayardo Arce:

the political activity of people, as Marx noted, is nothing more than the concentrated expression of the economy in which we live (1980a, 9).

Victor Tirado:

In my view, the world capitalist crisis can lead to victorious revolutions. The Sandinista revolution in Nicaragua was nothing more than a response to this crisis (1986, 75).

Such superstructuralism was more than merely rhetorical. The corollary of superstructural analysis was that the assumption of political power by a new class should lead to a conscious attempt to transform the superstructure. Thus, as Bayardo Arce told a teachers' meeting in 1980, the importance of teachers was linked to the importance of "the ideological processes of society." The goal, Arce added, was "to make of each teacher a revolutionary cadre" (B 05-01-80). In a 1983 speech, Tomás Borge was more explicit:

Education is the process through which society reproduces the ideas, values, moral and ethical principles, and behavioural habits of the successive generations. All social organization is a function of the class interests that hold state power. Education is a process of forming individuals in ideology, in a complex system of values and ideas that justifies the interests of the class that wields state power (rpt. 1985a, 72)³⁸.

In the specific case of Nicaragua, this implied that

Through education we must promote revolutionary strength, hatred of man's exploitation by man, loyalty to the revolutionary principles that sustain our vanguard, the FSLN, and open the flood-gates of science so that man's beliefs in fantasies and superstitions, accumulated over centuries, can be washed away (Ibid., 80)³⁹.

Developing such an education, Borge argued, required transforming teachers themselves:

How can teachers explain to their students the essence of exploitation, exploitation that has stripped part of their own hides, if they don't know how to explain exploitation conceptually? How can they create profoundly anti-imperialist consciousness if they are ignorant of the essence of imperialism? (Ibid., 72)⁴⁰.

The foregoing themes in Sandinista discourse were not mere rhetorical flourishes. We will see in chapter five that many of the points of conflict between the FSLN and the bourgeois opposition reflected Sandinista policies consonant with the ideas we have

Humberto Ortega

"War has existed since the apparition of private property and classes" (1981, 5).

³⁸Is it symptomatic of Borge's superstructural view of education that in the Spanish version of this speech (B 07-02-83), the word "knowledge" appears only near the end.

³⁹The exact meaning of the "fantasies and superstitions" to which Borge alludes is made clear from the speech as a whole, which returns repeatedly to the role of religion in keeping people ignorant and justifying domination.

⁴⁰As its actions after the 1990 election would show, the rightist opposition also recognized the great ideological importance of education.

examined here. The opposition could not but view these themes in Sandinista discourse with extreme suspicion. The FSLN's vanguardism and conception of democracy seemed designed to give the Sandinistas immunity from criticism, and maintain them in power forever. The nascent mass organizations were viewed as the seeds of totalitarianism and the instrument of a fusion of party and state. Superstructuralism was seen as a way of justifying the end of a state of law.

The opposition's reactions to Sandinista actions, on the other hand, served to ratify, from the leadership's point of view, the validity of the orthodox Marxist ideas studied here. Did not the bourgeoisie appear to have discovered a love of democracy precisely when its class interests were threatened? Did not the opposition seem to be using press freedoms merely to confuse the people with rumours and distortions? Thus the Sandinistas and the bourgeois opposition would find themselves in a classic "mirror image" situation, each side armed with an interpretive code that would lead it to interpret the other's actions as a confirmation of its own worst fears.

A fourth theme in Sandinista discourse that is relevant for policy decisions is *antipathy towards the market* and a belief in the efficacy of centralized planning. Thus the Sandinistas shared the orthodox view that a central aspect of the superiority of socialism over capitalism is its replacement of capitalist anarchy by socialist rationality. In a pamphlet written after his 1957 visit to the USSR, FSLN founder Carlos Fonseca wrote that:

There is no competition in the Soviet Union. Production there is planned. Because of this, they never suffer economic crises, nor overproduction. Thus, they have never found themselves forced to throw tea into the ocean, or burn their cotton, or let their apples rot (1985, 1:62).

In its 1969 "Historic Program", the FSLN promised to "Plan the national economy, putting an end to the anarchy which is characteristic of the capitalist system of production" (rpt. 1981, 20).

After taking power in 1979, numerous statements of the leadership indicated agreement with Planning Minister Henry Ruiz's statement that "only a planned, conscious

and globalizing action yields the possibility of overcoming underdevelopment" (B 01-06-

80). Thus, Jaime Wheelock commented that "without planning we cannot ensure a sustained and harmonious development which meets, to the extent possible, the social and economic objectives of the Revolution" (1981c). Tomás Borge noted in 1981 that "We must become more mature, we must overcome the adolescence of our Revolution, in order to control the anarchic tendencies of the market economy, to which we are still subjected by a thousand invisible threads" (1981a). In a revealing statement equating socialist planning with rationality, Tomás Borge commented

Mixed economy, yes, but based on a progressive advancement in economic planning. Mixed economy, yes, but based on the idea that irrationality should disappear, or at least tend to disappear, under the pressure of rationality (FBIS 24-02-82).

Even as the government moved to free up markets in 1987, Luís Carrión commented that calls for market freedom "are nothing more than a formulation of the interests of the rich and of the merchants" (B 25-05-87).

At the same time, there would be conflict over the practical meaning of this planning. Ruiz' Ministry of Planning (MIPLAN) would promote the concept of planning presented in the orthodox Marxist manuals, in which the planning ministry directs the overall economic activities of the state and relies upon such techniques as material balances. Jaime Wheelock's Ministry of Agriculture (MIDINRA), on the other hand, would seek to establish a planning relation with the firms under its control, while fighting to maintain its autonomy from MIPLAN. This approach was consistent with the "polycephalic" nature of other socialist economies (see chapter two). We will see in later chapters that the MIDINRA-MIPLAN conflict would be one of the central tensions in the new Sandinista state. Thus, the competing conceptions of planning were united on one point: they both involved extensive state involvement in the economy. But they were divided on the implications of planning for the structure of power within the state. By 1982, this question would be resolved in MIDINRA's favour, as shall be seen. Thus, the

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MIPLAN vision of a planning ministry governing the economic activities of both the state and non-state sectors did not advance very far, despite the leadership's apparent commitment to planning.

One final theme is the leadership's *vision of the "just society"* which was to emerge in Nicaragua in the long-term. This was fundamentally seen as a society without class exploitation. Thus, Luis Carrión declared that

In the society which we seek to build, no class will appropriate the labour of another, and work will be an obligation for all, not just for some (B 19-04-82).

For Humberto Ortega,

The working class is not struggling for crumbs, but for structural transformations of society, which will lead to a new society in which there will no longer be relations of exploitation and oppression of man by man (B 02-05-82).

In Tomás Borge's words:

We are creating a new society in which the individual will not be a commodity, a society in which there will no longer be tigers and lambs, a society in which there are no men who live off the exploitation of other men (B 20-07-81).

In orthodox Marxism, the only "exploitation of man by man" is property-based. Thus, "in the society in which social ownership of the means of production predominates, there is no exploitation of man by man" (Economía Política 1982, 10). The FSLN leaders appeared to view the just society, socialism, and an economy with state-owned means of production as the same phenomenon⁴¹. But this just society was therefore not attainable in the short-run, as the FSLN had to allow the bourgeoisie to maintain its control over a significant share of the economy (see chapter four). Thus, as Bayardo Arce would comment in 1982, "In all of the world's countries, the workers want socialism, a more just society where they can be the principal actors... It is obvious that the present status of the revolution does not satisfy our workers' deepest aspirations" (FBIS 02-06-82). This theme of tension between the revolution's current status and ultimate goals was, not surprisingly,

⁴¹One finds this equation of socialism with state ownership in Borge (1987b, 58), Wheelock (1983, 101), and Wheelock (JPRS 76378).

disquieting for the bourgeois opposition.

To summarize, various central themes in Sandinista discourse clearly reflect themes of orthodox Marxism. I believe that this indicates that the Sandinista leadership's outlook was significantly influenced by this Marxism. Other possible interpretations of this fact will be examined below. First, we will examine the importance that the leadership gave to ideology and to the ideological unity of the FSLN, by examining Sandinista theoretical training.

D. Theoretical training within the FSLN

The FSLN leaders did not merely absorb Marxist ideas: they also felt that it was crucial that others do so as well. Marxism was to be a key component of the movement's "organizational glue." The leadership attributed great importance to "correct theory" for the movement. Thus, FSLN founder Carlos Fonseca commented that the "glory and tragedy" of Sandino's movement was its exclusively peasant base: this meant that the leadership as a whole lacked the "political level" that could only come from access to theory (1985, 1:156). Similarly, Tomás Borge commented that the 1950s armed movements against Somoza failed because they lacked "a theory that would allow them to identify the forces in conflict, ranking them in order of strategic and tactical importance." The subjective conditions were developing at the time, Borge said, but there was no "ideology or theory that would order or solidify these conditions" (1984a, 56).

The FSLN had not always been marked by this stress on theoretical clarity. While some early Sandinistas such as Fonseca and Borge had studied Marxism before the FSLN was founded, others came to the movement with less-formed political ideas⁴². The movement was formed, as Carlos Fonseca put it, more from "shame" than from

⁴²Unlike some other countries in Latin America, Marxist ideas had not penetrated Nicaragua to any great extent by the time the FSLN was formed in 1961. FSLN founder Carlos Fonseca attributed this to Nicaraguan "feudalism" and to a lack of European immigration (1985, 1:293). A communist party had been formed in 1944, but it displayed the conservatism typical of Latin American communist parties, and had little social projection.

"consciousness" (Borge 1984a, 22).

In its origins, then, the FSLN was "the union of dispersed ideological and political conceptions" (Borge 1981a). But by the late 1960s there was great dissatisfaction with this state of affairs. The FSLN had little to show for its first years of existence: guerrilla columns were all but exterminated at Bocay in 1963 and Pancasán in 1967, and the years between those experiences saw the FSLN flirt with "reformism"⁴³.

FSLN leaders came to believe that theoretical weakness was a prime cause of the movement's difficulties⁴⁴. In response to this perception, the following years were marked by a strong formalization of the movement: party statutes were adopted, a general political programme was issued, and stress was laid on the theoretical formation of militants. In the words of Humberto Ortega, "the bases for the development of the Marxist-Leninist method of directing the struggle" were laid during this time (1979a, 93).

The stress on the theoretical training of cadres would continue to the triumph of July 1979 and beyond. One FSLN member described life in a Managua safe-house in the late 1960s thus: "We spent the evenings in various studies. First, philosophy and politics. Then guerrilla urban tactics" (Guadamuz 1982, 48). When two women join the cell, their leader says their hours of "study of politics and philosophy" must be extended, as one of them was in dire need of it (Ibid., 37). A 1977 party programme commented that "The organisation of study circles even in the most difficult conditions of repression, such as in prison and on rest stops during guerrilla campaigns, has been a constant preoccupation" (rpt. H. Ortega 1987, 298). Even in training for specific operations such as the 1974 attack on the house of Cabinet minister Chema Castillo, the guerrillas were given courses on the history of Nicaragua (Borge 1989a, 446)⁴⁵.

⁴³Borge (1989, 243ff) gives an interesting account of this period.

⁴⁴Fonseca (1985, 1:155); Morales (1983, 143); Humberto Ortega (1979a, 92).

⁴⁵Borge notes that peasants were sent to Managua, "where we tried to give them some theoretical formation" (1989a, 247). With regard to the materials used in this theoretical preparation, one clue is Omar Cabezas' comment that "I knew Marta Harnacker's Elementary Concepts of Historical Materialism by heart, from so much repetition" (1982, 32). Not only Marxist works were studied, however: the militants also studied Fonseca's

After taking power in 1979, the leadership continued to stress the importance of ideological coherence. Bayardo Arce argued that there could be no ideological pluralism within the vanguard (H. Ortega et al 1986, 58), and Daniel Ortega defined the FSLN as an "ideologically homogeneous detachment, with a leadership and a militancy based upon Marxism and revolving around Sandinismo as an expression of the Nicaraguan reality" (1987a). Two decades after seeking to forge ideological unity within the movement, the leadership continued to see such unity as vital to the survival of the revolution⁴⁶.

Moreover, the leaders sought to extend this ideological unity to the popular classes as a whole. In response to an interviewer who asked how the Sandinistas could avoid "a return to bourgeois dictatorship of one form or another," Tomás Borge answered that

I think that one guarantee... is the existence of a revolutionary party which uses scientific analysis to understand the reality of each moment... The popular organizations are another guarantee, organizations which permit the arming of the people. But it is not enough to give the people firearms, they must also be given the arms of revolutionary ideology, and these arms are the essence of the defence of the revolution. Firearms are essential, but ideology is the very life of the revolution (1984b, 148f)⁴⁷.

In the University of Nicaragua's Faculty of Economics, where I taught from 1984 to 1986, this concern for ideological development was translated into a heavy complement of courses on Marxist-Leninist thought at the outset of their university education. Students received five or six "political economy" courses based on Progress Publishers' Economía

compilation of Sandino's thought.

⁴⁶The FSLN came to power as a cadre party with strict criteria for membership, which were very gradually relaxed. In a 1987 interview, Bayardo Arce explained that the first criterion for full membership after taking power was having participated in the FSLN for five years (JPRS-LAM-87-057). This criterion probably sought to strengthen FSLN unity, by excluding from full membership those who had joined one or another of the factions during the FSLN's mid-1970s division. But this criterion yielded "fewer than 150" members. When the criterion was relaxed to two years participation, membership increased to 500. Not until later in the 1980s did the FSLN admit as members those who had not been somehow involved in the overthrow of Somoza. The intention of this exclusion was apparently to bar those who were merely attracted to a winner.

⁴⁷Borge may have had some doubts about all this. In a revealing 1983 interview with a Peruvian magazine, he was asked "Do you think that an emphasis on ideology can take root among the Nicaraguan people?" Borge responded: "Well, I must confess, first of all, that you are a fine journalist." After this compliment, Borge dodged the question (rpt. JPRS 84041).

Política (1982) and other manual-based courses on the "history of philosophy," "socialist economic planning," etc.⁴⁸

E. The Ortegas' "Third Way Tendency"

Much of the confusion surrounding the Marxist nature of the FSLN arose from the manoeuvres of the Sandinista tendency led by Humberto and Daniel Ortega. As the tendency was most often identified as the "*tendencia tercerista*," many observers concluded that it was a "third way movement, which seeks a middle path between communism and capitalism" (Carl 1984, 116). The tendency's manoeuvres confused even such observers of Latin America as James Petras, who dismissed the tendency as "social democratic" (1979, 14).

The Ortega tendency did much to foster this impression. The Ortegas reached out to broad sectors of Nicaraguan society and toned down their revolutionary rhetoric, at least in public. In the view of John Booth, the tendency "relaxed the original FSLN's requirement for Marxist-Leninist orthodoxy and rapidly increased their ranks with social democratic, social Christian, and bourgeois recruits, although the leaders remained Marxist-Leninists" (1985, 144). By 1978, Shirley Christian writes, the distinction between the Ortegas' *terceristas* and the social-democratic Nicaraguan Democratic Movement "was growing fuzzy" (1985, 75).

But impressions and reality do not always coincide. In this case, the Ortega tendency had strong reasons for cultivating confusion, since ambiguity was essential to its political strategy. To appreciate this strategy, and its Marxist inspiration, we must examine the background to the Ortegas' rise to pre-eminence in the FSLN.

From the mid-1970s on, the FSLN had been bitterly split between two rival tendencies. The GPP tendency, associated most closely with Sandinista founder Carlos Fonseca and Tomás Borge, promoted the strategy of "prolonged popular war." The

⁴⁸Later on, however, the students also received courses in micro- and macro-economics (initially titled "Bourgeois Economics" I and II).

strategy, called "GPP" after its Spanish name, had been officially adopted by the FSLN in the late 1960s. This strategy, as one FSLN militant would later describe it, "believes in a long period of accumulation of forces, with the creation of liberated zones during the preparation for a long war against imperialism, as in Vietnam" ("Habla..." 1979, 105). Influenced by Mao and Vietnam's General Giap, the strategy thus postulates that a large segment of the population will have been transformed by its experience in the liberated zones before the revolutionary movement assumes power.

A smaller faction, the so-called "proletarian tendency," attacked the GPP for its view that Nicaragua was still a peasant society. Led by Jaime Wheelock, the tendency advocated the formation of a mass-based "proletarian party." Wheelock and those of like mind were expelled from the FSLN in late 1975.

But from 1974 on, an alternative approach was being developed by Humberto Ortega⁴⁹. Writing in 1974, Ortega stressed that "the revolution cannot wait for propitious conditions to emerge all by themselves (rpt. 1981, 11). Ortega also stressed the need for conjunctural analysis: the principal error, he argued, was to "let the favourable moment pass by" (Ibid., 23). By the early 1970s, even elite sectors of Nicaraguan society were increasingly restive with the corruption and electoral frauds of the Somoza regime. In April, 1972, the traditionally quiescent Bishops' Conference complained that "political structures do not respond to the demands of our time" (Gispert-Sauch 1981). After the December 1972 earthquake, bourgeois discontent with Somoza grew as the president and his associates allegedly stole a large share of international reconstruction aid⁵⁰, and increasingly horned in on private sector activities. Nevertheless, Somoza was re-elected in

⁴⁹Though Humberto Ortega was the main strategist of the victorious Sandinista revolution, his enemies always underestimated his intelligence. One United States ambassador to Nicaragua, Anthony Quainton, told me in 1983 that he had difficulty talking with Ortega, "because he hasn't received much education."

⁵⁰In 1984, I lived next to a house that had belonged to a minister in the Somoza cabinet. Neighbors told me that, after the earthquake, the minister had built an enormous warehouse in his back yard to store stolen foreign donations. He apparently miscalculated his market, and eventually had to throw out tons of rotted food donations.

1974 with 95% of the vote, helped by an electoral law that had disqualified nine out of 10 opposition parties (Facts on File 1975).

Taking stock of the growing discontent with Somoza in Nicaraguan society, Ortega called for

a flexible policy of temporary and transitory alliances, while always maintaining the guiding principle of the independence and autonomy of the revolutionary vanguard (Ibid., 17).

Most importantly, Ortega argued that the FSLN should think less in terms of a "prolonged popular war," and more in terms of a rapid insurrection. This would require a change in the FSLN's relation with Nicaragua's popular classes. Rather than simply constituting a recruiting ground for the guerrilla force, as had hitherto been the case, these classes should be mobilized for a mass insurrection. Thus, the Ortega group was also called the "insurrectional tendency."

Ortega was essentially advocating "tacticalism," in the tradition of Lenin and Trotsky. By "tacticalism" I mean the approach that stresses the possible divergences between long-term strategy and short-term tactics; that appreciates what Lenin called the "zig-zags" of history; that gives importance to "conjunctural" conditions, as opposed to those that are purely long-term and "structural."

Tacticalism is not "voluntarism." That is, it does not deny the role of "objective conditions" in influencing the success or failure of revolutionary efforts. But, unlike other Marxist approaches, tacticalism will lay great stress on objective conditions that are purely "conjunctural"⁵¹.

Trotsky, in his "Lessons of October" (1971, 39) stressed the importance of this appreciation of the conjuncture:

The whole tactical art consists in this: that we seize the moment when the combination of circumstances is most favourable to us. The Kornilov uprising completely prepared such a combination... Neither the elemental

⁵¹ Lenin, for example, described a situation "ripe" for revolution as one in which i) "hostile" class forces are "sufficiently at loggerheads with each other"; ii) "intermediate elements" have "disgraced themselves"; and iii) there is a "mass sentiment" in favour of revolutionary action (1968, 308). In this view, the "ripeness" of the situation could be entirely short-term.

disintegration of the state power, nor the elemental influx of the impatient and exacting confidence of the masses in the Bolsheviks could endure for a protracted period of time.

The Bolshevik right, Trotsky held, responded to Lenin's assertion that "It is now or never!," with a "fatalistic optimism":

No. The party of the proletariat will grow and its programme will become clearer to ever wider masses... And it is only in one way that the party can disrupt its successes, namely, if it should assume the initiative of a rising under the present circumstances (Ibid., elision in original).

This last statement of "fatalistic optimism" sounds very much like the reproaches which the other two tendencies would level against the Ortega group.

Ortega freely recognized the theoretical roots of his 1974 document, which has various references to Lenin, Engels, Marx and Che. He saw his work as an application to Nicaragua of the lessons of revolutions in the USSR, China, Cuba and Vietnam (rpt. 1981, 3), and proclaimed that Marxist-Leninist theory was essential for success (Ibid., 15).

In 1977, Ortega and his followers gained an opportunity to implement this "insurreccional" strategy. At the beginning of that year, the FSLN was in a critical situation. Carlos Fonseca and another member of the National Directorate had died in November 1976. Tomás Borge was in jail, and Henry Ruiz' small guerrilla force was isolated in a remote area. Somoza's National Guard was on a rural offensive, destroying much of the FSLN's rural support network, and the guerrilla force spent its time "escaping and escaping," as one combatant recalls (Arias 1980, 114). Thus, at the time Jimmy Carter came to power, most foreign and Nicaraguan observers had "written off [the FSLN] as small and of little threat" (Christian 1985, 34).

But with the death, imprisonment or isolation of half of the National Directorate, Humberto Ortega and those who supported his insurreccional strategy seemed in a position to chart the course for the FSLN as a whole. From mid-1977 onwards, the "insurrectionists" would work to create and maintain favourable "objective conditions." Thus, their military actions were essentially aimed at influencing the political conjuncture.

The October 1977 offensive provides a good example of this approach. In September 1977, under pressure from the Carter Administration, Somoza ended the state of emergency that had been in force since late 1974. The FSLN faced the danger that a civilian opposition would be able to organize and gain widespread popular support (Ortega 1981, 69). Ortega felt that the FSLN had to act in order to avoid permanent political marginalization.

Though the October offensive was crushed in a matter of days, it had a great psychological impact. Just when "[internal] reactionaries and imperialism were convinced that they had annihilated the FSLN, or at least reduced it to its nadir" (Ortega 1981, 66), the movement had launched its largest attack ever. Within days, the bishops and the private sector called for a "national dialogue," and Conservative Party leader Fernando Aguero Rocha commented that the FSLN "has created the best conditions for change in Nicaragua" (FBIS 06-12-77).

While preparing the October action, Ortega also organized the "Twelve," a group of prominent citizens that would serve as the FSLN's bridge to the private sector and the "moderate" opposition. Four members of the "Twelve" had close links with the FSLN, unbeknownst to the rest. Ortega saw the group as a "magnet for sectors that come to the FSLN indirectly, more quickly than if we tried to attract them directly" (1981, 40). The group would play a key role in preventing the development of a unified private sector alternative to Somoza, and helped project a moderate international image for the FSLN.

But the October offensive also heightened tensions within the FSLN. The handling of these tensions shows the three FSLN tendencies working within a shared Marxist idiom, which provided each of them with the linguistic resources needed to defend their positions and attack those of the others. Within days of the October insurrection, the GPP tendency issued a communiqué (FBIS 15-11-79) stating that the organizers of the insurrection were not members of the FSLN, and condemning the action as "military coup tactics." The GPP argued that the Ortega group sought "a simple change in national capitalist personalities within the government machinery which, by its

economic and political essence, would always be a tool of imperialist domination." The GPP also held that the call for a "national dialogue" would simply complicate the work of accumulating forces in preparation for the "prolonged popular war." These were obviously serious accusations. In excommunicating the insurrectionists from the FSLN and charging them with "coup tactics," the GPP effectively accused Ortega et al of betraying the FSLN's revolutionary project.

Wheelock's group, for its part, condemned the "foolhardy rightist populist line" of the insurrectionists (FSLN-Proletarian Tendency 1987). The "proletarians" feared that the private sector opposition to Somoza would use the violence of the insurrectionists as a lever to force Somoza from power for its own ends. Thus, they argued, the insurrectionists were "objectively" on the "side of the bourgeoisie, as adversaries of the true interests of the masses" (FSLN-Proletarian Tendency 1979, 183). After the September 1978 insurrection, which cost many civilian lives, Wheelock accused the insurrectionists of "scandalous political irresponsibility" (1979, 126)⁵².

In an April 1978 "conjunctural analysis," Humberto Ortega sought to respond to the concerns of the other FSLN tendencies that the insurrectionists were merely paving the way for a new "bourgeois government," a "Somozism without Somoza". Ortega recognized that

We are in an open card game with the bourgeoisie, and the strongest and ablest will win...

The FSLN must walk a stretch together with the bourgeoisie, a stretch during which the bourgeoisie and imperialism will try to destroy us and divert the Sandinista liberation process, just as we will try to destroy them and throw their reactionary aspirations into the garbage (rpt. 1981, 38,40)⁵³.

⁵²Through all this, the "proletarians" revealed their strong psychological conservatism. They proclaimed that the revolutionary movement should devote its energies not to making revolution, but to "internal critique" (1979, 182). Wheelock claimed that he really did want to overthrow Somoza, but "without taking risks" (1979, 126). Fellow "proletarian" Carlos Núñez would later comment that their tendency's political work was proceeding at this point in an "orderly" fashion, "without brusque jumps" (Arias 1980, 139).

⁵³Indeed, after the "business strike" of early 1978, the Wall Street Journal (23-02-78) reported that

Businessmen believe they have won considerable trust by leading the strike.

This is the clearest formulation of Ortega's two-stage vision of the revolution. Bear in mind that those who must be thrown "into the garbage" along with their "reactionary aspirations" were not Somoza and his allies, but the allies of the Sandinistas themselves, the bourgeoisie with which the "FSLN must walk a stretch together." During this alliance, the FSLN,

with international support, and, in due time, with the support of the socialist camp and other progressive forces in the Third World, will try skilfully and gradually to channel the democratic conquests towards worker-peasant power (Ibid., 38).

Ortega fully recognized the risks of this "open card game." One critical risk was that the path pursued would foster "reformist" tendencies within the FSLN itself, eroding its will to push the revolution towards its second stage. FSLN leaders had already seen such reformism develop within the party during the mid-1960s. To minimize this risk, Ortega sought to maintain the ideological purity of the FSLN. This concern has been missed by those observers who believe that the FSLN opened its doors to all and sundry during the late 1970s.

In 1977, Ortega stressed that "We are trying to create a mass struggle without massifying the FSLN." The FSLN must continue to be made up of "the best and most conscious" people (rpt. 1987, 309). A 1978 internal document of Ortega's tendency once again stressed the "vital work of strengthening the Sandinista vanguard nucleus which bases itself on the scientific doctrine of the proletariat and the historical legacy of Sandinism" (FSLN-Insurrectional Tendency 1979a, 191f; emphasis in original).

This concern to avoid the "massification" of the FSLN led to the development of a dual military structure, as Carlos Núñez explains:

there were two types of armed organizations, units formed by FSLN militants and mass units. The first were made up of ideologically developed cadres, who shared Sandinista strategy and principles... On the other hand there were armed mass [militias], broader military organisms. To belong to these it was enough to be anti-Somocista, anti-imperialist, and to be willing to fight...

Now, by playing up their old family names, their practical experience and education, and an increased concern for social and economic development, they hope to sell themselves as the answer to peaceful, moderate transition.

Given the great increase in the combative participation of the masses, the militias grew enormously, to the point when one member of the select military units was controlling between 100 and 200 militia members (Núñez et al 1985, 66-67)⁵⁴.

At the same time, Ortega's insurrectional tendency stressed that the FSLN's rigorous structure not be visible to people at large:

Due to the enormous prestige of our vanguard, the people that in one or another way are aligned with this vanguard feel themselves immediately to be militants of the FSLN. This aspect is of enormous importance in terms of morale and should not be curtailed. What is important is to ensure that those elements that are not truly members of [the] vanguard structure -- even though they may feel a part of the same -- not be allowed to assume the responsibilities, duties, rights, etc., of the vanguard's true militants. In time, the people will understand the difference between the vanguard and the masses... (H. Ortega 1987, 309)

Thus, the Sandinistas sought to coordinate a relatively invisible, ideologically homogeneous nucleus, and a broad mass movement marked by ideological pluralism. Observers who believe the FSLN opened its doors during this period have simply confused the Sandinista nucleus with the broad social sectors which that nucleus organized.

The Marxist lineage of all three tendencies is obvious. All three saw the FSLN as a vanguard ahead of the broad mass. The GPP and proletarians held that only an organized mass consciously supporting a socialist project could give the vanguard the strength it needed to take power and build socialism. The difference between these two tendencies lay in the question of how this mass was to be organized. The insurrectionists, however, held that divisions between Somoza and the bourgeoisie, together with a broad mass with the minimal level of organization necessary to participate in an insurrection in support of its immediate demands, could allow the FSLN to seize power. Once in power,

⁵⁴The dual military structure was also prolonged beyond 1979. A broad-based militia was formed, alongside the armed forces. Membership in the latter required not merely that one have a distinguished history in combat, but that one be "politically reliable" (H. Weber 1981, 104). In an interview with a Cuban magazine, Luís Carrión commented that the hallmark of our popular army does not derive from its operational structure but from its political training and its objectives... It will be an army schooled in fidelity to the vanguard of our people (JPRS 74338).

Thus, the FSLN continued to respect Mao's dictum that Power grows out of the barrel of the gun. Our principle is that the party commands the gun and the gun shall never be allowed to command the party (cited in Nordlinger 1977, 16).

the FSLN would seek to achieve the fuller level of organization and conscientization of the masses advocated by the other two tendencies. Thus, Ortega noted in 1977 that the insurrectional strategy did not abolish the need for a prolonged popular war:

PROLONGED POPULAR WAR (sic) is the strategy that encompasses the entire process of struggle, including the present phase, the democratic-revolutionary stage, that will take place once the dictatorship is toppled and will be followed by the phase in which the democratic revolution gives way to socialism (rpt. 1987, 313).

Thus, all three tendencies believed that the achievement of socialism required: (a) a vanguard; (b) an organized and socialist-oriented mass; (c) state power. The essential difference between the insurrectionists and the other tendencies lay in the question of whether or not (c) might precede (b).

If I have dwelt on this question at length, it is because so many of the Sandinistas' actions in their first years in power correspond to the Ortega strategy. As noted above, the FSLN in power paid great attention to mass organization and ideological transformation. We will see in later chapters that the leadership frequently hinted that the alliance with sectors of the bourgeoisie would be temporary. The Sandinistas' early actions and statements, as well as the Ortega programme presented here, lead to the conclusion that the FSLN initially did hope to deepen the revolution, passing from its "democratic" phase to a "socialist" phase. We will see that this hope was eventually abandoned, though the precise moment when this happened cannot be pinned down.

F. But was Marxism all the important?

I have argued throughout this chapter that the Sandinista leadership was heavily influenced by orthodox Marxism. Orthodox Marxism was consistent with: (i) their political rhetoric; (ii) their attraction to a state-dominant economy, and their rejection of the market; (iii) their stress on ideological training within the movement and in society at large; (iv) the manner in which they debated strategic issues during the FSLN split.

This conclusion differs from that of Donald Hodges, author of the most extensive work to date on Sandinista ideology, who claims that the FSLN leaders were decisively

influenced by the "new Marxism" that emerged from the Cuban revolution, and that when they spoke, for example, of Marxism-Leninism "they meant the new Marxism rather than the old" (1986, 184). The analysis offered here indicates that, however much "new" Marxism the leaders held, they carried a lot of the "old" Marxism with them as well. Hodges' error, I would suggest, lies in his belief that the "old" and "new" Marxisms are opposites, when in fact they differ only in terms of some specific points. He argues for example that the "new Cuban Marxism was distinguished by its novel conviction that it is not always necessary to know the conditions of revolution in order to make one" (1986, 174). But this area of difference with the "old" Marxism can coexist with many areas of convergence, including the themes discussed above: vanguardism, super-structuralism, etc.

At least two objections may be raised to the arguments presented here. The first begins with the fact that many of the themes examined above, such as vanguardism and conceptions of democracy and political rights, are typical components of the self-legitimation of "Marxism-in-power," that is, of state socialist regimes. Could one not argue that the FSLN leaders merely used orthodox Marxism to legitimate their power without believing in that Marxism?

This objection is consistent with the Downsian view of political rationality, critiqued in the first chapter. For Downs, ideologies are merely "weapons in the struggle for office" (Downs 1957, 96). If ideological themes from orthodox Marxism appear in Sandinista rhetoric, this means only that this Marxism is being used to "legitimate" or "rationalise" positions arrived at for other reasons (Weber 1958a, 117ff).

The weakness of the objection is that orthodox Marxism did not constitute a particularly appropriate vehicle for legitimation in a society in which Marxist ideology was not widely disseminated. As noted above, Marxist thought had not penetrated Nicaragua as it had other Latin American societies. In fact, given the strong anti-communist propaganda in Somocista society, to legitimize one's position with appeals to Marxism would have made as much sense as appealing to papal encyclicals in Teheran. If the FSLN leadership were merely seeking a vehicle for legitimation, much more use would

have been made of Christian symbolism, and Marxism would scarcely have appeared in their rhetoric.

One could narrow the objection, and argue that orthodox Marxist themes were useful in legitimating National Directorate leadership, not in society at large, but within the FSLN. But for orthodox Marxist principles to serve as vehicles for legitimation within a movement, then that Marxism itself must enjoy support within that movement. That is, it must be more than a cynically used "weapon."

A second objection to the argument presented here is that some of the specific pieces of evidence offered as indications of an orthodox Marxist outlook within the FSLN leadership are consistent with other interpretations. All sorts of political tendencies, for example, have promoted state control of the "commanding heights" of the economy.

This of course is true, but it does not weaken the argument, which is that the overall package of words and deeds of the Sandinistas are best explained by the hypothesis that they came to power influenced by orthodox Marxist ideology. Social-democrats, or economic nationalists, might have proclaimed their desire to control the commanding heights, but I do not think that they would have proclaimed their intention to destroy the bourgeoisie and "throw their reactionary aspirations into the garbage." Thus, the question is not whether each and every phenomenon cited in this chapter proves the hypothesis being argued, but whether that hypothesis constitutes a simple and comprehensive explanation of those phenomena, an explanation superior to the suggested alternatives. This I believe to be the case. The Sandinista leaders came to power talking and acting like orthodox Marxists, not fools who saw no breach between their hopes and their possibilities, but intelligent and realistic orthodox Marxists ready to address the constraints that faced them in July 1979. The best explanation of their words and deeds is that the leadership was in fact influenced by orthodox Marxism.

But what does it mean to be influenced by an ideology? We will examine here just one aspect of that influence: the link between ideology and perception in Sandinista relations with the peasantry.

G. Socialist Ideology and Sandinista perception

Ideology influences what we want. It also influences what we "see." It is common-place to observe that human perception is limited, that everyone sees some things and neglects others. It is also common to note that our limited perception is not random, that our perception is structured by our prior assumptions, many of which are not fully conscious⁵⁵, and by our "pragmatic" interests⁵⁶.

Ideology can play an important role in this structuring of perception, focusing our attention on some phenomena and blinding us to others. This is partly an effect of the general pragmatism of perception. In so far as one's ideology orients one towards "what is to be done," it correspondingly orients one's perception. In addition, ideologies, like Kuhn's paradigms, may contain tacit assumptions about which types of phenomena exist in the social world and which do not⁵⁷.

What has been said of individuals applies with perhaps greater force to organizations. There, pragmatic interests and pre-suppositions will be built into the very structure and standard practices of the organization. As Simon argues, organizations will seek through training to give the individual member a "frame of reference for his

⁵⁵As Michael Polanyi notes, we are not focally aware of the pre-suppositions that form the ground of our knowledge and perception: "The curious thing is that we have no clear knowledge of what our pre-suppositions are and when we try to formulate them they appear quite unconvincing" (1962, 59).

⁵⁶As Berger and Luckmann put it, everyday consciousness "is dominated by the pragmatic motive," that is, attention "is mainly determined by what I am doing, have done or plan to do" (1966, 22). See also Schutz (1970, 75).

This pragmatic approach to perception and knowledge is captured nicely in Nietzsche's aphorism that people "do not flee from being deceived as much as from being damaged by deception" (1968, 45). Even the "purest" scientific theory, as Michael Polanyi argues, has a pragmatic grounding (1962, 3).

⁵⁷An example that will become relevant in a moment: a neo-classical ideology may lead one to assume that exploitation cannot exist in a voluntary market relation. Similarly, a Marxist ideology may lead one to assume that mutual satisfaction cannot exist in a relation between members of opposing classes.

On the "quasi-metaphysical commitments" of Kuhnian paradigms, see Kuhn (1970, 41).

thinking" (1965, 16), and will seek, through a division of labour, to focus the member's attention upon matters pertaining to her particular task (Ibid., 102). Focusing in particular on the leadership, one can say the information the leaders perceive directly may be minimal in relation to the information they acquire through "organizational sensors" (Allison 1971, 67). They are thus dependent on information filtered at various points by the pragmatic interests and pre-suppositions -- both organizational and personal -- of subordinates.

Using this simple conceptual framework, we may inquire of the information that the Sandinista leaders did and did not possess when they made policy decisions. We will focus here on one issue-area: Sandinista relations with the peasantry. When the Sandinista leaders "gazed out" upon the countryside, what did they see and what did they fail to see?

They certainly saw a countryside divided by class antagonisms. Moreover, their ideological outlook led them to view rural class relations as simply antagonistic rather than antagonistic yet functional. Thus, rural merchants were viewed by the Sandinistas as super-exploiters of the peasantry. We will see in later chapters that it would become clear over time that these merchants had in fact linked the peasantry with urban markets in a much more complex and satisfactory way than originally believed. The peasantry, in fact, never lost its preference for dealing with private rather than state merchants.

As will be seen throughout the thesis, the Sandinistas also saw a countryside marked by backwardness. The Sandinistas shared that hidden lust for modernization held by many leftist critics of modernization theory. Thus, for example, they believed that state farms and cooperatives would serve as agents of both technical modernization and of the ideological or cultural modernization of the peasantry.

These two perceptions combined to give the Sandinistas a particularly negative view of so-called "pre-capitalist" social relations. Thus the 1981 agrarian reform law (chapter five) made non-monetary rental arrangements a grounds for expropriation. Because of this, many peasants lost access to land they had worked under these "pre-capitalist" arrangements, and felt themselves worse off for the loss.

But another question must be asked: what did the Sandinistas fail to see in the countryside? They certainly did not see a peasantry differentiated by gender. This blindness may have had an important impact upon the Sandinista project. It is important to ask, for example, whether the costs and benefits of policies such as cooperativization might be skewed by gender. For example, in so far as women are primarily responsible for obtaining the household's water, the alleviation of this task through village potable water projects might have been an important attraction. As those primarily responsible for the care of children, women might also have been more interested in the educational and health services that accompanied the cooperativization process⁵⁸.

⁵⁸I am relying here on an analysis of what might be called "objectively possible" interests. I noted above the authoritarian implications of the Marxist category of "objective" interests. While this category needs to be critiqued, it is easy to throw the whole problem of the objectivity of interests out the window and conclude that interests are infinitely malleable and are determined only within political struggle.

This is the route taken by Laclau and Mouffe, who set up a stark choice: either objective interests "can be determined from the very beginning," prior to political struggle, or else the whole concept "becomes meaningless" (1985, 84). This choice leads them to argue that "there are no privileged points for the unleashing of a socialist political practice" (Ibid., 87). That is, there is no basis for believing, prior to political action, that this or that social group is more likely to be attracted to socialism. Interests are constituted exclusively "within the political practice" (Ibid., 120).

But this radical indeterminacy abandons one of the vital qualities of Marxist thought. We might say that, while pre-Marxist socialist thinkers had paid great attention to the question "what is to be done?", Marx added the question "and who is to do it?" While Marx and Engels exaggerated the precision with which they could answer this question (and hence exaggerated also the distance between "utopian" and "scientific" socialism), the very posing of the question is a crucial advance.

It is this advance which is abandoned when one asserts that political practice is entirely unconstrained in its constitution of "interests." [This seems a rather untenable position, as Geras points out (1987, 81): if one asserts that no social group has a "privileged" connection to a socialist project, is one also willing to assert that women have no "privileged" connection to a feminist project?] The problem is the false choice which forms the starting point of the Laclau-Mouffe argument: is it really true that the notion of objective interests is "meaningless" merely because such interests cannot be fully and precisely identified prior to political action? [Ironically, the "post-modern" Laclau and Mouffe are wielding an almost positivistic conception of meaning here.]

We may confront this false choice by borrowing Weber's category of "objective possibility." Weber used the concept to overcome another false choice, according to which history must be governed by necessity or by mere chance (1949, 164ff). Adapting the conception to our needs, one can argue that the analysis of society and its members can identify, not "objective" interests, but "objectively possible" interests. That is, analysis can identify possible interests which might be embraced by specific constituencies. The objectivity of these interests comes from the quality of the analysis: that is, possible interests are not identified in a merely arbitrary form. Nevertheless, the analysis can only identify possibilities. "The category of 'possibility' is thus not used in its negative form. It is, in other words, not an expression of our ignorance or incomplete knowledge" (Ibid.,

Thus, one can argue that cooperativization and/or villagization could do more to meet the "practical gender needs" of women than of men⁵⁹. One could therefore hypothesize that there was a potential basis of support in the countryside for some of the changes that the Sandinistas sought to promote. This is a hypothesis that might have been tested through different strategies of political interpellation and mobilization. Imagine, for example, that the Sandinistas had made greater effort to integrate rural women into their ranks, and in particular into their leadership structure. Imagine that they had encouraged the development of a relatively autonomous rural women's movement, a movement that could interpellate women as women.

The outcome of such a strategy is not predictable: a vibrant rural women's movement might well have gone beyond questions of "practical gender needs" to address issues related to "strategic gender needs"⁶⁰. That is, such a movement might have pushed the Sandinistas to address contradictions of gender alongside those of class. The very autonomy required to make a rural women's movement capable of interpellating women as women might have posed a range of challenges to the leadership. Nevertheless, it is reasonable to hypothesize that such a rural movement, while modifying the nature of the Sandinista project, might also have given that project greater chances of success.

173-74). Rather, objective analysis reveals only possibilities because of the very nature of the matter under consideration: people remain free to respond or not to respond to appeals constructed around their possible interests. The validity of the identification of possible interests must then be "tested" through political practice (to the extent that practice can ever test theory).

Something like this conception of "objectively possible" interests is necessary to avoid the stark choice between the total strategic indeterminacy of Laclau and Mouffe and the authoritarian implications of the category of objective interests.

⁵⁹Caroline Moser defines practical gender needs as "those needs which are formulated from the concrete conditions women experience, in their engendered position within the sexual division of labour" (1991, 90). Thus, while one may argue from an abstract perspective that potable water is not a "women's issue," because both men and women should be responsible for this task, in practical terms clean water may be of more importance for women than men.

⁶⁰Moser defines these as "needs which are formulated from the analysis of women's subordination to men, and deriving out of this the strategic gender interest identified for an alternative, more equal and satisfactory organization of society" (Ibid.).

But this remains an untested hypothesis, as the Sandinistas walked down the same path that many other socialist movements had walked: they oriented their appeal to the peasantry around the question of land, though they knew they could not resolve the land question in the way that the peasantry hoped it would be resolved. The potential interests of peasant women were never explored, as the appeal to the peasantry was resolutely male-oriented⁶¹.

Some of these ways of seeing are peculiar to orthodox Marxism: for example the view that relations of production can be neatly categorized into "pre-capitalist" and "capitalist," and that the latter are necessarily superior to the former. Some are shared more broadly by Marxism in general, for example the view that the class relation between merchant and peasant is simply a relation of antagonism. Other elements, such as the desire to struggle against "backwardness," are shared by Marxist and non-Marxist modernists. Finally, the failure to see gender cleavages is typical not just of Marxism but of what has been called "male-stream" thought in general.

Thus, even had the Sandinista leadership not been influenced by orthodox Marxism, they might still have held some of the ways of seeing examined here. Yet the specific combination portrayed here was consistent with an orthodox Marxism outlook, and probably with no other.

In examining these "blinds spots" of the Sandinista vision, the remarks which opened this section should be borne in mind: human perception, both at an individual and an organizational level, is inherently limited. Attention may be re-directed, but "blind spots" must always remain. The vision of an all-embracing counter-hegemonic movement

⁶¹Omar Cabezas, author of the classic work on the Sandinistas' rural guerrilla experience, wrote that

the farm animals, the wife, the children, and the land constitute one element, it is a unit for the peasant, his indivisible universe. That's why I say that the peasant without land is an incomplete man, a man without a soul (1982, 242).

A political language that lumped "the wife" together with "the farm animals" and the land corresponded to a political practice that sought to use rural patriarchal structures, rather than question them (see, for example, Cabezas 1988, 24).

that would replace classism with a sensitivity to every social contradiction is as ignorant of the limits of human perception and knowledge as was the classical socialist dream of the "perfect plan."

To summarize, then, I believe that the Sandinista leadership came to power influenced by orthodox Marxism. Immediately upon taking power, they had to face the enormous tension between their hopes and the constraints of the situation they faced. That tension is the subject of the next chapter.

Chapter Four: The Legacy of Somocismo and Initial Sandinista Strategy

Lenin commented in 1918 that "The only material we have to build communism with is what has been left us by capitalism" (1971, 72). As in De Chardin's image of the swimmer, cited in the second chapter, the legacy which a revolutionary government inherits represents both a series of obstacles to change, and the very medium through which change must be fashioned. While the rhetoric of revolution promotes the myth of total change, the sober reality facing victorious revolutionaries demands that they manage a complex dialectic of continuity and change. For example, it is clear that victorious revolutionaries must avoid economic collapse. But in the short run, and perhaps even for a longer period, relative stabilization of the economy will depend upon, or even reinforce, the actors, institutions and motivations inherited from the previous regime.

This chapter will examine the Sandinistas' first response to the dialectic of continuity and change. The chapter will examine the legacy of Somocista political economy which the Sandinistas confronted upon taking power, and present the thinking of the Sandinistas on certain key questions at that time. The chapter will thus offer a somewhat artificial "snapshot" of Sandinista thinking at the moment of taking power, before the dilemmas of holding power had begun to modify that thinking. The first section of the chapter will present the legacy of Somocismo. Sections B through D will examine initial thinking in our four broad issue-areas: state organization and price policy (section B)¹; relations with the bourgeoisie (section C); and agrarian reform (section D). For each issue-area, various dilemmas will be presented by drawing on the historical experience of other state socialist regimes.

¹Though the thesis examines state organization and price policy as distinct issue-areas, for purposes of exposition it will sometimes be more fruitful to examine them together. This reflects the fact that, in the Nicaraguan case, changes in thinking on the two areas were often intimately interrelated. This will be seen in particular in the economic reforms of 1985 and 1988.

A. The Economic Legacy of Somocismo

1. The role of agriculture

Agriculture is central to the Nicaraguan economy. In the mid-1970s, agriculture itself accounted for 18.3% of the G.D.P.² Agriculture-related industries represented a further 9.6% of G.D.P., and 58% of manufacturing value-added (Table B.1)³. Thus, agriculture and agriculture-related industry accounted for 28% of G.D.P.

More importantly, agricultural products dominate Nicaragua's export accounts. In 1976, unprocessed and lightly processed agricultural goods represented \$428 million of the country's \$542 million of exports (Table B.2), generating a foreign exchange surplus upon which the rest of the economy depended. As is generally the case with tropical agro-exports, this sector was vulnerable to world market forces, and to fluctuations in the volume of production. The Nicaraguan economy was severely affected by the collapse of world coffee prices during the Great Depression. In the 1970s, a weighted index of Nicaragua's primary export prices showed an average annual fluctuation of 22.5%, while an index of production volume had an average fluctuation of 7.5% (Table B.3).

As agriculture dominated the Nicaraguan economy, so did the export sub-sector dominate within agriculture. Nicaragua's traditional agricultural strategy, like those of many other Third World nations, might without exaggeration be termed a "food last" approach. The demands of export agriculture for land, credit, and human resources had priority, with domestic food production repeatedly adjusting itself to the logic of export activity.

With the coffee boom of the late 19th Century, indigenous communities were eliminated⁴ and small-holders in general pushed onto poorer land:

²This is agriculture, narrowly defined. Forestry, hunting and fishing, which the World Bank lumps in with agriculture in its estimation of G.D.P. shares, represented a further 1.7% of Nicaraguan G.D.P.

³All tables are in the Statistical Appendix.

⁴The process of dispossession of indigenous communities paralleled that taking place in much of Latin America at this time.

The increase in land value caused by the high prices paid for coffee in the world market produced a rapid expansion of *latifundismo* and a feverish quest to gain title to national lands and those held without title (Wheelock 1978, 17).

Coffee was Nicaragua's principal export until the post-World War II period.

Nicaragua stepped up cotton production as a response to the war in Korea. By 1956 cotton was Nicaragua's major export, and came to occupy a large share of the cultivated land on the rich Pacific Coast⁵. The cotton boom is held to have generated a more modern bourgeoisie⁶. Unlike coffee, which is produced at a variety of technical levels, all cotton is produced by relatively advanced methods⁷. Thus, while Nicaraguan coffee yields are low by Central American standards, cotton yields are quite respectable, higher than those in neighbouring Costa Rica and in the United States (Wheelock 1985a, 115)⁸. Colburn (1986, 49) notes that Nicaraguan cotton producers tend to be well-educated, and have an average of twenty years of experience.

Beef production rose rapidly in the 1960s, promoted throughout Latin America by

⁵Estimates of the precise share vary. Wheelock gives a figure of 80% (Ibid, 126). Calculations on the basis of República de Nicaragua (1978, 7), however, suggest a share of only 47% for the Pacific departments as a whole, with the departments of León and Chinandega devoting 64% of their cultivated land to cotton.

⁶In the words of Biondi-Morra, "land ownership lost the medieval significance it had represented for those large cattle and coffee landowners who had often found in it the foundation of social prestige and an asset worth possessing for its own sake. With cotton, instead, land came to be perceived as just another commodity" (1988, 58).

⁷República de Nicaragua (1978, 27) estimates that 95% of cotton is produced at the country's highest technological level, compared with only 15% of coffee.

⁸These high yields were not costless: throughout Central America, cotton producers came to represent the worst of high-tech agriculture. As Dover (1985) notes:

In little more than ten years, the number of insect species requiring control went from two to eight, while the number of pesticide applications per growing season increased from fewer than five to twenty-eight. Pest-control costs eventually accounted for half of all production expenses.

Fields were sprayed with DDT, methyl parathion, and DBCP. From 1962-1972, 3,000 acute poisonings per year were reported (Collins and Kelly 1985), and in 1980, "human fat tissues in Nicaragua showed one of the world's highest burdens of DDT -- 97 ppm, sixteen times the global average" (Zalkin 1987).

Apart from its health and ecological effects, intensive applications of pesticides were becoming self-defeating. Trend growth for cotton yields between 1950 and 1964 was 6.3% per year. For the 1965 to 1978 period, trend growth was -1.5% per year. (Table B.4).

the Inter-American Development Bank, which lent Nicaragua \$26 million for herd development (B 09-12-86). The amount of land dedicated to pasture doubled (Vilas 1984, 79ff), and the volume of slaughtered beef increased 132% over the decade⁹.

These export booms accentuated two characteristics of Nicaraguan agriculture: the marginalization of food production, and the concentration of land. During the export booms, peasant maize and bean producers were pushed off the Pacific Coast, the region best suited to grain production, into the central highlands, and from there to the agricultural frontier in the Atlantic region of the country, where the land is thought suitable only for perennial crops. CIERA (1984, 21) estimates that in 1977, 63% of soils were being used in ways that did not correspond to their best use. The geographical marginalization of food production also made it difficult to market output and left small farmers in a weak position vis a vis merchants. Finally, the lack of adequate drying and storage facilities led to high post-harvest losses, estimated at 30% for basic grains and vegetables (Ibid., 60).

Export agriculture also received the lion's share of both bank financing and technical assistance. For the 1977-78 season, cotton and coffee received 85% of short-term agricultural crop credit, while the two main peasant crops, maize and beans, received just 4.7% (BCN, 1979). Thus, food production was left with a weak technological and infrastructural base. The bulk of maize and beans were produced at the lowest technological level (CIERA, 1984)¹⁰. By the late 1960s, the marginalization of domestic food production had led to the stagnation of output. In the decade prior to the 1979 revolution, growth rates for the major food crops lagged behind the rate of population

⁹Calculation based on BCN (1979).

¹⁰At this level, planting is done by simply spiking a hole in the ground and dropping the seed in, and seed is provided from the output of the previous harvest. The method does not work up the soil, and the seed has often lost quality through bad storage.

The maize and bean yields at this level averaged around 15.3 quintals per hectare and 10.7 quintals per hectares respectively. The yields at the highest technological level, with improved seed, irrigation, etc., were 5.7 times higher for maize and 2.8 times higher for beans (CIERA 1984). [República de Nicaragua (1978, 27) indicates a yield differential of just 3.5:1 for beans and 3.2:1 for maize.]

growth (Table B.5).

The post-war export booms also contributed to *land concentration*. By 1978, farms greater than 350 hectares represented 2% of Nicaraguan farms, yet controlled 48% of agricultural land, an increase of eight percentage points since 1950. Farms of less than seven hectares represented 45% of farms, controlling just 2% of agricultural land, down from 3% in 1950 (Barracough 1984)¹¹. An estimated 60% of rural families had either no land or a quantity of land insufficient to support themselves (Weeks 1985a, 114). The large producers tended to focus on export products -- principally coffee, cotton, sugar and beef -- while the small farmers generally produced food for national consumption¹².

Observers have stressed the symbiosis between landlessness and the needs of the export sector. The 20th century's landlessness replaced the 19th century's coercive legislation as the means to guarantee a supply of labour for the export sector. It is estimated that in 1978 almost 80% of the rural economically active population participated in the export harvests. Of this group, 40% had no access to land, and another 50% did not own or rent enough land to survive without supplemental wage labour. Because of the seasonal needs of the export sector, only 1 out of 5 of those without access to land could find year-round employment (Deere and Marchetti, 1981).

Unlike much of Latin America, medium-sized producers were also a significant factor in Nicaraguan agriculture, producing, for example, about 60% of Nicaragua's coffee and cotton (Baumeister, 1985). Yet these producers earned relatively limited profits, as they had to face monopolies when they bought materials needed for production, when they sought bank credit, and when they sold their harvest. Some 30,000 cattle producers, for example, had to face off against seven export slaughterhouses, three export firms and three banks, and all these sectors were organized in powerful economic groups

¹¹Mayorga questions this point, claiming that "there is no evidence of a greater concentration of land holdings" (1986, 43). But data included in Mayorga's own thesis (ibid., 65) constitute just such evidence. See Table B.6.

¹²One important exception to this pattern was rice, much of which was produced in large, modern farms.

in which the larger landowners participated directly (Vilas, 1984, 119; Strachan 1976).

The cotton and beef export booms also drove many rural Nicaraguans into towns and cities. At the end of World War II, two thirds of Nicaraguans lived in rural areas. By 1980 that proportion was well below one half. While the rural population grew at an average of 2.3% per year in the 1950-80 period, the population of large urban centres grew at an annual rate of 6.2% (B 02-01-84). As the industrial sector demand for labour never kept pace with the influx of labour¹³, most new urban dwellers moved into petty production or commercial activities.

This legacy would present the new government with numerous problems. Too many people were living in the cities, where there was little socially useful work available. But attempts to stem the rural-urban migration, for example by concentrating the development of social services in the countryside, could conflict with the need to maintain the political support of urban popular sectors. In addition, the vast number of urban dwellers involved, of necessity, in petty commerce would present both technical and political obstacles to the Sandinistas' project of regulating the market.

The agricultural dimension of the legacy of the Somoza years meant that any agricultural strategy would confront a complex set of problems and constraints, among which we can note:

- (i) The need to generate a foreign exchange surplus;
- (ii) The ecological and health implications of cotton production;
- (iii) The stagnation in the production of basic grains;
- (iv) The lack of fit between an optimal pattern of land use and the inherited pattern;
- (v) The large landless rural population;
- (vi) The excessive seasonality of labour demand;
- (vii) The concentration of "unproductive" workers in urban commercial activities.

This legacy thus generated a set of objective dilemmas, dilemmas that existed whether or not the leadership was aware of them. This is because the strategy chosen to address any of the problems listed here would have implications for the rest. For example, addressing

¹³Data from BCN (1979) indicate that manufacturing employment rose 2.4% per year between 1965 and 1977, slower than the rate of population growth. Over the same period, value added in the sector rose 5.8% per year.

(iii) by improving current peasant production might reinforce (iv), by rendering more viable basic grain production where it "should not" take place. Alternatively, addressing (iii) by stressing modern production of basic grains could increase the import-intensity of agriculture, thus making (i) more problematic. If one addressed (v), the supply of labour for the export harvest might dry up, again rendering (i) problematic. One could address this in part by intensifying the mechanization of the cotton and sugar harvests, but this too would raise the import-intensity of agriculture. Problem (vii) offers a possible solution to the labour-dilemma, if one can mobilize this sector for the export harvests without high economic or political costs.

One can think of escapes from some of these dilemmas. One can envisage, for example, forms of modernization of basic grains production that need not increase the import intensity of production. Thus, the point here is not to argue that all of these dilemmas were entirely binding, but to suggest the complexity of the agricultural situation facing the new government. This is particularly important to keep in mind now that many Sandinistas believe that their early agrarian policies were purely and simply mistaken. We will return to this point in the concluding chapter.

2. Dependent Industry

The industrial sector would present the Sandinista leadership with a different dilemma. Unlike agriculture, this sector ran an overall trade deficit. Maintenance and growth of the sector would therefore place pressure on the external balance. To permit the sector to decline, on the other hand, would intensify urban unemployment and could generate political difficulties. I believe that, in analyzing this problem, the Sandinistas had an exaggerated sense of the foreign exchange drain that this sector represented.

Most of Nicaragua's industry developed in the 1960s under the auspices of the Central American Common Market (CACM), formed in 1960. Under the tutelage of the Alliance for Progress, the Central American nations set about attracting foreign capital: new industries were given an eight to ten year exemption on the payment of duty for

equipment and raw material imports, and a six to eight year exemption on taxes on rents and profits. Nicaragua guaranteed foreign investors "the free exit, at any time, of any or all registered capital", and "the free and unrestricted repatriation of net profits" (Governments of Central America 1962, Articles 11-13; República de Nicaragua 1955, Article 9).

With these guarantees, the CACM was very attractive for foreign investors. In addition, industrial production inside the market was given tariff protection from outside competition¹⁴. As a result of tax exemptions and tariffs, industrial companies operating in Nicaragua were able to earn profits that allowed them to recover their investment in just a few years (Gibson 1986).

This import-substitution strategy was an early success, as Nicaragua's manufacturing value added grew 11.4% per year throughout the 1960s, the seventh fastest rate of growth in the world (World Bank 1982). But the rate of growth dropped to 5.9% in the 1970-77 period (BCN 1979), as the CACM ran into difficulties, among them the withdrawal of Honduras in 1970. New industrial investment in Nicaragua dried up: "not one important factory opened in Nicaragua in the decade prior to the revolutionary triumph" (Ramírez 1987, 217). The combination of a drop-off in new investment and the continued outflow of profits meant that by 1976 six dollars in profits on previous investments left Nicaragua for every dollar entering the country as direct investment (BCN, 1970-1978).

Observers such as Wheelock (1978, 130) provide a standard structuralist explanation for the CACM's loss of dynamism: in the absence of reforms that would increase the income of popular sectors, the internal market of the isthmus had reached its limits. This analysis is rejected by Weeks (1985a, 64ff), who points to the fact that, in those Central American countries not affected by civil strife, industrial growth in the late

¹⁴In the words of Eduardo Galeano, "the creation of barriers to *external foreign* competition, so to speak, allowed the *internal foreign* companies to sell at higher prices and earn greater profits" (1980, 426).

1970s was as high as in the late 1960s, indicating a recovery of dynamism and casting doubt on the saturated-market thesis. Weeks argues that the slowdown in the early 1970s was caused by increases in the prices of imported inputs, which Central American industrialists were not able to pass on to their customers owing to international competition¹⁵. Thus, he argues, the loss of dynamism can be explained within a neo-classical framework, as a normal capitalist response to a profit squeeze. Whatever the cause of CACM's slowdown, critics saw it as proof that the CACM industrialization process was yet another Third World "miracle that led nowhere"¹⁶. The Sandinistas would be strongly influenced by the belief that the industrialization process was fatally flawed.

A key critique of the CACM was that, since its formation has been promoted by the Alliance for Progress, the regional integration process must have fundamentally served the interests of United States imperialism. For Jaime Wheelock, the CACM was an integral part of the United States's "global counterrevolutionary strategy" formulated in response to the Cuban revolution (1978, 127; 1983, 108). Edelberto Torres-Rivas writes that

since the whole decade of efforts for economic integration has taken place under the aegis of the penetration of foreign capital in the form of manufacturing investment, denationalization of local banks, increasing external debt, etc., ... the dependent character of our economy has been reenforced, and the political marriage between our local bourgeoisie and the metropolitan bourgeoisie underlines even more the neocolonial character of our political structure (Torres-Rivas 1981, 15).

Thus, the FSLN's 1969 programme promised to end the "so-called integration which seeks to intensify the submission of Central America to the United States monopolies and to the local reactionary forces" (rpt. FSLN 1981).

It was also argued that the CACM industrialization tended to focus on U.S.-style non-durable consumer goods that only a fraction of the population could afford. Thus,

¹⁵The implication of Weeks' argument is that the inefficiency of CACM industry relative to external competitors had by this point nullified the advantages of tariff protection.

¹⁶The phrase is Samir Amin's (1974, 166).

industrialization brought quantitative "growth," but not qualitative "development," in the sense of a "deepening" of the industrial sector. In addition, the tax exemptions and guarantees of unrestricted profit repatriation ensured that a large part of the profits generated in the industrial sector were shipped out of the country, thus weakening the ability of the industrialization process to contribute to overall economic dynamism.

This lack of contribution to overall dynamism, it is argued, was exacerbated by the highly-dependent nature of the CACM industrialization. The exemptions offered on import duties for equipment and raw materials encouraged the simple transfer of machinery and production techniques from developed countries, and discouraged the creation of linkages between industry and agriculture. Jaime Wheelock argues that the CACM brought to Nicaragua "more or less obsolete factories with a technology that was no longer profitable in the United States (1981b, 19), and that the whole industrialization process was "simply a fiction":

It is true that we no longer imported tooth-paste, but we imported everything needed to make it. We even imported the paste, which we simply put into tubes labelled "Central-American product made in Nicaragua (Wheelock 1983, 109).

Thus, a perpetual dependence on imported raw materials was fostered. As the FSLN's Sergio Ramírez noted:

Only 8% of the cotton we produce is processed here to make cloth, and we have to import cloth [for our textile industry]. On the other hand, we "produce" [Quaker] oats, an industry which consists of moving oats from big tins to small ones, and we "produce" toilet paper by moving it from big rolls to small ones (1987, 188).

These criticisms, which I have endorsed on other occasions (Ryan 1987a), must be treated with caution. With respect, first, to the imperialism question, it can be argued that the effects of the CACM were contradictory. While the industrialization process did increase foreign capital's presence in the region¹⁷, it also allowed for a certain

¹⁷Bulmer-Thomas (1987, 191) notes that, by the end of the 1960s, firms "partially or fully financed by foreign capital" accounted for 30% of Central American industrial output and 50% of intra-regional industrial exports. He adds, however, that nationally-controlled industrial firms also grew rapidly during the decade.

"diversification of dependence." From 1960 to 1977, the United States share of Nicaragua's exports dropped from 42.7% to 23.6%, while its share of imports dropped from 52.6% to 28.8% (BCN 1979). This diversification would help Nicaragua survive the United States trade embargo imposed in 1985. In addition, the intensification of trade within the region gave industrialists in the other countries an objective stake in Nicaragua's economic well-being in the 1980s, which apparently led to some quiet resistance to United States attempts to destabilize the Nicaraguan economy¹⁸.

Despite its emphasis on non-durable consumer goods¹⁹, the CACM industrialization process did "deepen" Nicaragua's industrial structure, though to a limited degree. The share of non-durable consumer goods in industrial sector value added dropped from 89.7% in 1960 to 70.3% in 1975, while the share of intermediate goods rose from 7.8% to 17.6%, and that of capital goods and consumer durables rose from a minuscule 2.4% to 8.1% (Dijkstra 1987). Nevertheless, the industrial structure of

¹⁸Thus there were frequent rumours in Nicaragua in the mid-1980s that industrialists, particularly in Guatemala, were warning their governments not to participate in the destruction of the Nicaraguan economy. Even as the Reagan Administration was seeking to isolate Nicaragua, the Guatemalan economy minister was emphasizing the need to bolster trade between the two countries (FBIS 15-12-83). The Guatemalan government also indicated its desire to mediate conflicts between Honduras and Nicaragua (JPRS 83446).

The Sandinistas regularly reminded other Central American leaders of their interdependence. Government Junta member Sergio Ramírez pointed out in 1982 that "whoever thinks of Central America without Nicaragua is simply not realistic," and reminded people that "no merchandise can go from Guatemala to Costa Rica and vice versa without going through Nicaragua" (FBIS 07-07-82). In a press conference in Mexico, Bayardo Arce and Henry Ruiz claimed that the isolation of Nicaragua from Central America would cost Guatemala 22,000 jobs (FBIS 7-12-82).

While the Sandinistas stressed interdependence, they were also very ambivalent about it. We will see in the next chapter that one cabinet member believes that the Sandinista leaders' distaste for some of the other regimes in the region led them to accept the demise of the CACM, though the common market was essential to the viability of the industrial sector.

¹⁹As Bulmer-Thomas (1987) notes, the very mechanisms by which the CACM encouraged consumer goods industry created an obstacle to industrial deepening typical of import-substitution industrialization processes. The development of light industry was encouraged by tariff protection against consumer goods imports, combined with low tariffs on imports of capital goods and intermediate inputs. Any industrialist seeking to enter into the areas of intermediate or capital goods production would thus have had to face a sharply negative effective rate of protection. This bias was increased in 1968 through a new regional tariff agreement (Ibid., 183).

Nicaragua, and of Central America in general, remained "shallow," even in comparison with countries with similar per-capita incomes (Weeks 1985a, 139)²⁰.

Nicaraguan industry was highly dependent, at least in comparison with other sectors: import intensity for industry was much higher than for other sectors of the economy (Table B.8)²¹. The industrialization that took place under CACM auspices, however, was neither more nor less dependent than Nicaragua's pre-CACM industry: the overall import intensity of the Nicaraguan industrial sector remained stable through the CACM period²².

Nicaraguan industry also demonstrated an acceptable export intensity. If we exclude the "Food, beverage and tobacco" sub-sector of industry, on the grounds that it represents in large part the initial processing of agricultural goods, just over 24% of 1976 industrial output was exported (Table B.10). About three-quarters of the exported output went to CACM partners.

In evaluating the view that the industrialization process was nothing but a "new way to drain foreign exchange, since all the exchange that was produced by agriculture

²⁰Depending on how one evaluates such deepening, of course, the "shallowness" of CACM industrialization may be seen as either a blessing or a curse. Many dependency theorists follow Cardoso (1973) in arguing that the lack of a capital goods sector is the very essence of dependency. But if the capital goods sector has greater economies of scale and a higher capital intensity of production than light industry, it could be argued that small and capital-poor Central American countries should not put the development of such industry on the agenda for quite some time yet.

²¹Branches of industry representing just 21% of industrial value added accounted for 73% of imported inputs (Table B.9).

²²Import intensity is measured here as the ratio of imports destined for the industrial sector to gross industrial output. The discussion here excludes the petroleum sub-sector, which generates very little domestic value added. A refinery was opened in Managua in 1963, which artificially boosted the "Intermediate goods destined for industry" category of imports. The rationale for excluding this sub-sector is that it is not germane to an analysis of the overall foreign exchange effects of Nicaraguan industrialization, since, had the refinery not been built, a more or less equivalent amount of foreign exchange would have been spent on refined petroleum products.

Bearing in mind this exclusion, import intensity remained relatively stable in the 1960s and 1970s, at approximately 20%, with the exception of the 1973-74 period (Table B.7). The data contradict the position of Wheelock (1978, 128), who uses anecdotal evidence to argue that the import intensity of production rose during the 1960s.

was used by industry" (Wheelock 1983, 109), a distinction must be drawn between the impact of CACM industry on the trade balance, and its impact on the other components of the balance of payments.

My calculations suggest that, in the early 1970s, Nicaraguan industry (excluding both agro-industry and the petroleum sub-sector), ran an average annual trade deficit of just \$13.1 million, on an average gross output of \$186.7 million. In the 1974-78 period, however, the deficit rose to an annual average of \$44.2 million²³. Thus, the data do not support Wheelock's assertion that the industrial sector imported twice as much as it exported (*Ibid.*).

It is important to note the vulnerability of industrial exports, however. While traditional agricultural exports were affected by trends in world market prices, products traded within the CACM were vulnerable to changes in the health of the CACM, as they were generally not competitive at world prices²⁴. Ironically, the triumph of the Sandinistas would itself do much to undermine the common market. With three-quarters of Nicaragua's industrial exports heading to the CACM (Table B.12), this factor would become important in the 1980s.

It is harder to estimate the impact of CACM industry on the non-trade components of the balance of payments. One indicator is the growth in the repatriation of profits on direct foreign investment. From \$1.2 million in 1960, this item rose to \$25.9 million in 1976 (IMF 1955-1978). While not all of this foreign exchange drain can be attributed to CACM industry, the coincidence between the rise in profit outflows and CACM development suggests that most of this figure can be so attributed.

²³See Table B.11. This calculation suggest a much higher deficit than that reported by Weeks (1985a, 168), who believes that an average annual deficit of \$8 million occurred from 1970-77. My calculations suggest an average of \$20.6 million. Weeks offers no source for his estimate.

²⁴Weeks (1985a, 138) notes that a 1972 survey found that CACM products were in average 18% more expensive than competing imports.

It is not clear, however, to what extent the incoming Sandinista government should take those remittances into account in evaluating the impact of the sector. The new government had a certain room to manoeuvre in its relations with industrial sector transnationals, as shown by the fact that it was able to persuade most transnationals to continue operations despite a suspension of almost all foreign exchange remittances (Austin and Ickis 1986, 105). Thus, evaluation of industry's foreign exchange impact should note the difference between normal and exceptional periods of operation.

A final effect of industry on the balance of payments was the growth in public debt contracted to support the infrastructural development required by industrialization, which will be examined below.

In summary, while there was some measure of truth in the criticisms of the Nicaraguan industrialization process, on some points those criticisms seem overstated. Though CACM industrialization was promoted by the United States, the relation between industrialization and "imperialism" was complex. Though it is true that the CACM industrialization process had done little to "deepen" Nicaragua's industrial structure, the quantitative growth of industry was impressive. Industrial value added rose a total of 327% between 1960 and 1977. The sector was a drain on foreign exchange, yet not to the extent that leaders such as Wheelock believed.

3. Debt

A final aspect of the economic legacy of Somocismo is the external debt inherited by the new government, officially estimated at \$1.6 billion²⁵. The growth of that debt

²⁵Jorge Alaniz, who worked for a time in the Nicaraguan ministry coordinating external aid, puts the actual debt total at \$1.1 billion, and argues that the \$500 million gap between this figure and the one cited by government officials represents loans contracted but not disbursed (1985, 227).

At the end of 1978, the medium- and long-term external public debt stood at \$961.3 million (Table B.13). But the picture is clouded by Nicaragua's accumulation of short-term debts prior to the FSLN's coming to power, as interest and principal payments on medium- and long-term debt fell due.

In addition, the new government assumed responsibility for the \$175 million in debts of the nationalized banking system (Decree 907), and \$55 million in debts of other nationalized companies (Decree 998).

was fairly typical of the Latin American experience in the 1970s. The medium- and long-term external public debt grew 24% annually through the decade (Table B.13), below the Latin American average of 35.2% (Iglesias 1983). As the 1960s annual growth rate was also over 20%, the debt grew more than forty-fold over the 1960-78 period.

This growth pattern indicates the extent to which Nicaragua's growth in the 1960s and 1970s was financed, not by direct foreign investment or by local accumulation, but by credit. Mayorga (1986, 31) notes that the contribution of domestic savings to investment declined "from around 90% in the early fifties to the 50%-60% range in the sixties and seventies." From 1960 to 1978, the debt to G.D.P. ratio rose from 7.6% to 50.6%. Over the period, the country ran a total current account deficit of just over \$1.06 billion, roughly equivalent to the increase in the outstanding debt for the period (Table B.14). The accumulated debt was used "productively," in the sense that imports of capital goods were consistently greater than the accumulation of debt and the current account deficit over the period²⁶. Nevertheless, as elsewhere in Latin America, many externally-financed

Taking these figures into account, it is probable that the official government figure is more accurate than that of Alaniz. ECLA (1979) puts the external debt for which the new government bore responsibility in one way or another at \$1.53 billion as of August 1979.

²⁶Throughout the period, \$1.5 billion in capital goods were imported. Foreign loans appear to have been used to finance the economy's "current operations" only in the 1974-75 period (Table B.14).

Bulmer-Thomas (1987) notes that the CACM placed various forms of fiscal pressure on Central American governments. The lowering of tariffs meant a loss of fiscal revenue, as did other fiscal exemptions for industry. Mayorga (1986, 64) states that, in 1970, fiscal exemptions for Nicaraguan industry equalled nearly 10% of industrial value added. The common market also created pressure on the expenditure side, as governments competed among themselves to attract foreign investment through infrastructural investments (Bulmer-Thomas 1987, 181).

In general, the government's accounting of its use of the publicly-contracted debt (BCN 1978, 192f) is typical of the regional experience: the public sector incurred external obligations in order to support private economic development. In Nicaragua, however, the Somoza family had consistently blurred the line between "public" and "private." For example, at the end of 1978, \$174 million of the \$961 in public external debt was listed as having been dedicated to "National Reconstruction." The category presumably refers to loans used to "rebuild" Managua after the 1972 earthquake. But observers agree that it was precisely in this reconstruction process that the corruption of the Somoza regime reached its height, and hence it is likely that a large portion of this \$174 million was siphoned off by companies owned by the Somoza family.

Bulmer-Thomas (1987, 217f) drily comments that

From 1972 to 1975 inclusive, and again in 1979, the public sector in

investments through the period were in sectors such as real estate, and could never generate foreign exchange to pay for themselves. Both borrowers and lenders signed loan agreements in the hope that the agricultural sector would continue to generate a foreign exchange surplus, allowing the government to maintain a convertible exchange, and foreign loans to be repaid smoothly.

Also typical of the Latin American experience was the increasing role of private banks in loans to Nicaragua. The private bank share of medium- and long-term external public debt rose from 22.6% in 1970 to 46.3% in 1978 (Table B.13). As these private loans had maturation periods shorter than traditional development loans, and were contracted at "LIBOR-plus" interest rates, Nicaragua's external accounts, like those of Latin America in general, would suffer from the sharp increase in world interest rates at the end of the decade.

4. Economic Crisis or Crisis of Legitimacy?

It is a commonplace of Leninist analysis that revolutions reflect a coincidence of "subjective" factors, such as the rise of a revolutionary party, and "objective" factors such as economic crisis. Some observers have tried to apply this paradigm to the Sandinista revolution. George Black, for example, argued that the insurrection's success reflected "not only the correct balance of military forces and the readiness of popular organisation, but the culmination of a deep-rooted economic crisis" (1981, 66). Though Black acknowledged the growth of the economy, he insisted that "No single spell of growth was capable of resolving the structural crisis of the economy," which was "in an irreversible decline." For Keith Griffin,

The crisis of the repressive agro-export model was precipitated not by the impoverishment of the peasantry and an intolerable increase in inequality but by a decline of the economy into a depression in the early 1970s and a

Nicaragua under Somoza's rule borrowed far in excess of what was spent on public capital formation, and allegations of corruption by the borrower (together with incompetence or complicity by lenders) seem justified.

sharp fall in average incomes (Griffin 1988, 260)²⁷.

Such a viewpoint was quite common among observers of the Nicaraguan revolution, perhaps because it did conveniently accord with a traditional paradigm.

But in fact, if one uses the standards of evaluation commonly applied to a capitalist economy, the Nicaraguan economy was simply not in crisis prior to the FSLN's escalation of military activities in 1978. Real G.D.P. grew at an annual average of 5.6% in the 1970-77 period, lower than the 1960-69 average of 7.5%, but equal to the average for the 1950s (Table B.15). The economy performed strongly in the pre-insurrection period of 1976-77, with an average growth of 6.8%. The ratio of gross fixed investment to G.D.P., after having dropped in the 1967-72 period, had more than recovered, and was over 20% for both 1976 and 1977 (Table B.15)²⁸. Though the external debt was increasing, the rate of increase was comparable to or lower than that of other Latin American countries. The external balance seemed relatively healthy: Nicaragua benefitted from a sharp increase in world coffee prices in 1976-77²⁹, and cotton prices were high. Nicaragua's terms of trade had in fact improved over the mid-1970s, despite the oil shock of 1973-74³⁰.

There was therefore no evidence of an "irreversible decline" in the Nicaraguan economy prior to the escalation of the insurrection. Though Nicaragua was not suffering an economic crisis, the pattern of development the country had undergone in the post-World War II period had laid the foundations for a crisis of legitimacy, a crisis which the FSLN was able to bring to a head.

²⁷Griffin bases his argument on the decline of real per capita G.D.P. over the 1965 to 1980 period (Ibid., 264). But real per capita G.D.P. ~~rose~~ until 1977, before dropping 37% in 1978-1979, as a result of the insurrection itself. Griffin is thus citing as a cause of the revolution what was in fact its effect.

²⁸The 1977 investment ratio of 24.6% was in fact the highest since at least 1950.

²⁹The average price of coffee exports rose from \$54.66 per quintal for the 1975-76 harvest, to \$184.83 for the 1977-78 harvest (BCN 1979, 82).

³⁰Price indices for exports and imports, using 1968 quantities, show a 14.2% improvement in terms of trade from 1972 to 1977 (BCN 1979, 72).

There was much evidence of the highly exclusive nature of Nicaragua's economic development. Industrial development had been a classic case of Arthur Lewis' "development with unlimited supplies of labour" (1954): though real G.D.P. per capita rose 74.2% from 1960 to 1977, real industrial wages dropped 15.4% (Table B.16)³¹. A study of the countryside suggests that, while farms of 350 hectares or more enjoyed a 132% increase in real income between 1952 and 1971, the corresponding figure for farms smaller than 10 hectares -- nearly half of all farms -- was just 9% (Barraclough 1984). A 1972 F.A.O study estimated that the richest 5% of the Nicaraguan population received nearly twice the share of national income as the poorest 50% (cited in ECLA 1979). Writing of the juxtaposition of increasing landlessness in the countryside, continued urban poverty, and the development of ostentatious investment projects such as shopping centres and discotheques, Sergio Ramírez commented that "some were exiles in their own country; others were tourists in their own country" (1987, 44). The human impact of this path of development was severe. It is estimated that two-thirds of children under five years suffered malnutrition, and infant mortality was estimated at between 120 and 146 per 1,000 live births (Bossert 1982, 261).

There are signs that some middle sectors of Nicaraguan society were alienated by the pattern of economic growth. As noted above, medium-scale export producers faced quasi-monopolies when they bought inputs, and quasi-monopsonies when they sold their produce. Conflicts developed through the mid-1970s, as these producers felt they were not profiting from the increases in world prices for the commodities they produced (Baumeister 1985, 59). Ironically, the very windfall profits Nicaragua was enjoying in its

³¹Mayorga's econometric study of Nicaragua (1986) places a key "structural break" in economic development around 1967. Until that year, Mayorga notes, real wages had risen steadily since 1950 (the data presented in the present work, Table B.16, suggests the real wage decline began earlier). From 1967 on, however, a coincidence of "various forces" reversed the trend of rising wages. Among the forces Mayorga mentions is the introduction of labour-saving technology. In particular, a large number of mechanical cotton harvesters were imported in the early 1960s in response to a perceived "rural labor bottleneck" (Ibid., 44). Mayorga also attributed the structural break to over-investment in manufacturing, fostered by the provisions of C.A.C.M. incentives, which increased urban unemployment (Ibid., 75).

external trade may have helped undermine the Somocista state. Finally, as noted in chapter three, the pattern of economic growth had created divisions between the Somoza family and those sectors of the bourgeoisie not directly linked to it.

Apart from the widespread resentment of the repression and corruption of the Somoza regime, then, the nature of Nicaragua's economic development may have helped sow the seeds of a crisis of legitimacy. In this sense it is correct to say that the FSLN was able to build its insurrection on the basis of certain "objective conditions," though many of these conditions existed in various Latin American countries³².

B. State organization and price policy

1. Dilemmas on the road to a socialist economy³³

The quest for a state-dominated economy involves a number of objective dilemmas. If these are not confronted consciously, choices will be made without a full grasp of their implications. Some of the most acute dilemmas arise in the area of price policy³⁴. Neo-classical economics tends to stress the role of the price mechanism in relation to allocative efficiency. Market-clearing prices signal to producers and consumers alike the relative scarcity of different goods, in relation to society's "effective demand." Neo-classical economists pay less attention to the impact of prices upon distribution, though the question is not altogether ignored.

The question of distribution can be examined at various levels of analysis: between "rich" and "poor"; between "capital" and "labour"; between regions of a country; etc. Each

³²Data presented by Bulmer-Thomas (1987) indicate that real urban wages dropped 8% in El Salvador and 30% in Guatemala during the 1970-1977 period. During the same years, real per capita G.D.P. in the two countries rose 15% and 20%, respectively. In Honduras and Costa Rica, on the other hand, real urban wages were higher at the end of the decade than at the beginning.

³³"Socialist economy" will continue to denote the catch-up socialist model discussed in chapter two.

³⁴"Price" will be understood here to include any charge for a good or service. The concept thus includes interest rates, salaries, etc.

of these levels of analysis yields different insights concerning the impact of prices, and each may suggest different policy objectives to be taken into account in formulating price policy. Thus, a "rich-poor" analysis can suggest that prices might be manipulated in order to reduce income disparities, a regional analysis might suggest the use of prices to attenuate rural-urban migration, etc.

A level of analysis that is crucial for understanding the path to a socialist economy is that of distribution between the "state complex" and the rest of the economy. The state complex is defined here as all those institutions whose activities more-or-less automatically influence the financial situation of the state. Thus, the term includes not just those bodies financed from the central government budget, but institutions whose deficits (or surpluses) will almost certainly be covered by (or transferred to) the state banking system. Though the exact boundaries of the state complex may be hazy, the concept illuminates a key dimension of price policy³⁵. The state complex that emerged in Nicaragua after July 1979 can be broken down into four basic components: (i) the government proper; (ii) the financial system; (iii) the import-export system; (iv) the productive and commercial system, comprising state production enterprises and those trade enterprises not included in (iii)³⁶.

Thus, many prices will affect the distribution of resources between the state complex and the rest of the economy. Of particular interest through this thesis will be the prices paid and charged by state production and trade organizations, including the price of foreign exchange implicit in the state's foreign trade transactions, and interest rates charged by the state financial system.

The question of the distribution of resources between the Soviet state complex and the rest of the economy generated a debate in the 1920s, a debate which is relevant to the

³⁵To the best of my knowledge, Evgeny Preobrazhensky (1965) is responsible for the introduction of this concept. Though he did not provide an explicit definition of the state complex, his usage conforms with the definition provided here.

³⁶The last two components are separated as they represented, in Sandinista Nicaragua, two separate sources of state dis-accumulation. See chapter six.

present analysis. The two poles in the debate might be termed the "state accumulation" perspective and the "alliance-building" perspective. Evgeny Preobrazhensky articulated the state accumulation perspective. Socialism depended upon the consolidation of the state complex, which would spearhead the industrialization process, Preobrazhensky argued, and this consolidation depended upon resolving the problem of state accumulation. As the state sector is initially quite small, its growth will depend on resources extracted from the non-state economy. Preobrazhensky termed this extraction "primitive socialist accumulation," in an imperfect analogy with Marx's concept of primitive (capitalist) accumulation (1965, 84). Preobrazhensky believed that price policy could serve as an efficient instrument of state accumulation since "not a single kopek [is] needed for any special taxation apparatus" (Ibid., 111). Hence, he advocated "a price policy consciously calculated so as to alienate a certain part of the surplus product of private economy in all its forms" (Ibid., 110).

In opposition to Preobrazhensky, Nikolai Bukharin articulated the "alliance-building" perspective. Bukharin argued that the future of socialism depended, not upon rapid industrialization, but upon the maintenance of an alliance between the "worker" state and the peasantry, which made up the mass of the Soviet population. This alliance required that socialism be developed at a "snail's pace," argued Bukharin (cited in Carr 1958, 352). This strategy, Bukharin felt, was threatened by the state accumulation perspective. Hence he sub-titled an attack on Preobrazhensky "How to destroy the worker-peasant bloc" (1982). Bukharin jumped on Preobrazhensky's admission that his approach ignored "the difficulties of a political kind which result from the relations between the working class and the peasantry" (1965, 111). To ignore such "difficulties," argued Bukharin, was to ignore the whole essence of constructing socialism (Bukharin 1982, 175-6)³⁷.

³⁷Bukharin commented that Comrade Preobrazhensky, completely in the spirit of the old "economists," sharply detaches economics from politics, treating politics not as "concentrated economics," but as some kind of "thing-in-itself" from which one can abstract and without which one can "manage affairs" in the spirit

Rather than using prices to foster state accumulation, then, Bukharin felt that price policy should seek to maintain political alliances. Instead of raising prices of state products, "we must orient ourselves toward the lowest possible prices, toward satisfying the masses" (Ibid., 174).

Both parties to the debate tended to ignore the dilemma they were confronting. Bukharin simply did not take the problem of accumulation very seriously: he suggested that lowered state prices would constitute in and of themselves a significant stimulus to economic growth and accumulation³⁸. Preobrazhensky, for his part, demonstrated little interest in sustaining the "worker-peasant alliance," which, he argued, would founder without a stress on state accumulation, through a lack of manufactured goods to exchange for the peasantry's grain (Carr 1958, 316).

Yet there is a dilemma here, one that would confront the Sandinistas in power. The state complex needs resources even for its "simple reproduction," and more so for its expansion. Initially at least, the bulk of these resources must be captured from the private economy, and price policy is an effective tool in this regard.

Yet one of the consequences of extensive state intervention in the economy is the destruction of many "fetishes" that accompany the market mechanism. Prices will be robbed of their "naturalness," and will increasingly be seen as the product of government decisions. Price policy may then be seen as an indication of the "class nature" of the state, and shifts in this policy may have serious political consequences. In a sense, broad sectors of the population are freed of their fetishes, only to become thoroughgoing "voluntarists"³⁹.

of "socialist accumulation."

³⁸His argument is analogous to the so-called "Laffer curve" upon which "Reaganomics" was based.

³⁹It was noted in the second chapter that one of Marx's critiques of the market is its propensity to generate "fetishism," the confusion between social and "natural" phenomena. Capital earns a "going rate" of profit which seems to arise from the very nature of capital; basic labour earns a "natural" wage rate; etc. This "naturalness" of the outcomes of capitalist relations helps the capitalist state to appear as a "neutral" enforcer of the rules of the market game. Once the state of "primitive accumulation" is completed, and the

It will be seen that this politicization of prices bedeviled the FSLN throughout its decade in power, and the Sandinistas *never managed a consistent response to this dilemma*. In the early years, one can find traces of a state-accumulation perspective in some planning documents, though government policy as a whole reflected an alliance-building perspective⁴⁰. Later on, the FSLN tried unsuccessfully to address the accumulation problem without destroying its alliances.

It is important to note that emphasis on state accumulation is but an extension of the emphasis upon financial controls and responsibility. Through its necessary relation to the question of financial controls, the accumulationist perspective comes into conflict with a central aspect of the socialist economy. It was noted in chapter two that one of the main attractions of such an economy is its "spotlight" capacity to focus resources on specific tasks "at all costs." Though the accumulationist perspective serves the long-run needs of the socialist economy, at any given moment the focus on financial controls will conflict with the short-term logic of that economy.

Mention should be made here of monetary emission. Should the state complex not capture sufficient resources through taxation, price policy, or loans, it will have recourse to the "printing press." Preobrazhensky noted that monetary emission "is also one of the

majority of the population is well-and-truly separated from the means of production, the state can appear, not as a class state or as a dispenser of special favours, but as the guarantor of personal rights, including the right to own and profit from property.

Though Marx condemned fetishism, the "premature" loss of such fetishism may present serious obstacles on the path to socialism. If nothing is "natural," then everything can be "up for discussion." From the point of view of Marxist philosophy, this may seem to be an ideal: a society which debates everything, which takes nothing for granted, is a society which will become transparent to itself. But this is not a good recipe for establishing hegemony. As victorious revolutionaries have to make use of certain pre-existing mechanisms in order to pursue their own ends, they may wish to have people continue to take these mechanisms "for granted" for a time. While revolutionaries will want the people at large to question much of what has been seen as "natural," there are many fetishes they may wish to leave standing.

⁴⁰None of the most influential ministries promoted a consistent accumulationist perspective. We will see below that the Ministry of Planning's economic plans stressed the importance of state accumulation, yet combined that stress with a number of contradictory elements. Jaime Wheelock's agriculture ministry, for its part, seemed to be more interested in "accumulating" means of production, without regard to the financial performance of those means of production.

methods of primitive accumulation" (1965, 91), and in a pamphlet written during War Communism celebrated the printing presses as "that machine-gun of the Commissariat of Finance which poured fire into the rear of the bourgeois system" (cited in Carr 1966, 261).

Experience has shown, and the Nicaraguan experience confirmed, that this weapon must be used judiciously, if at all. In seizing resources through monetary emission, the state has little control over who actually transfers those resources. The state's political alliances, therefore, may be left at the mercy of the outcome of an inflationary struggle in the private economy. The inflation also vitiates planning and control within the state sector. As monetary emissions continue, the velocity of money will accelerate as people increasingly turn to foreign exchange or non-monetary objects to serve as "stores of value." Hence inflation accelerates and the "real yield" from monetary emissions declines, eventually approaching zero (Griffith-Jones 1981, 36; Carr 1960, 31).

Just as revolutionaries must confront the choice between fostering accumulation within the state complex and using that complex to maintain political alliances, so too must they identify the overall objectives of state enterprises. Repeated failures to do so, or to translate state objectives into administrative practices, have contributed greatly to the problems of state firms.

State firms in socialist regimes have traditionally found themselves subject to a wide variety of demands over and above their specifically productive tasks: to contribute to full employment, to undertake political education within the firm, to make workers available for certain local tasks, such as agricultural harvests, to represent the state in isolated areas, etc.⁴¹.

This multiplicity of tasks is often justified by the fact that the state firm does after all represent social property, and should not be managed according to the narrow criteria of capitalist profitability. The firm must be sensitive to the general interests of society as well (Lange 1965, 12). Maximization and efficiency should be pursued, not at

⁴¹For Soviet examples, see Hewett (1988, 165f) and Shmelev and Popov (1989, 123f).

the micro level of the firm as in capitalism, but at the level of the state complex as a whole (Preobrazhensky 1965, 105).

The problem lies not in the multiplicity of goals as such. One could envision an arrangement wherein a limited number of social objectives were communicated to the firm as obligatory parameters, leaving the firm free to maximize one variable⁴². Such a situation would be analogous to a constrained optimization problem in calculus. But the situation observed in socialist regimes is typically quite distinct: a vast number of objectives are communicated to the firm, often but vaguely articulated, and this communication is often informal. The firm's objectives are thus not transparent, and both efficient behaviour and outside evaluation of that behaviour are rendered difficult⁴³.

One common expression of the difficulty in clarifying the goals of socialist enterprises is the tension between the goals of gross output maximization and financial efficiency. We saw in chapter two that output maximization has often been the prime criterion by which firm behaviour is judged. But such an approach is in contradiction with an emphasis on state accumulation, which requires precisely the attention to "exchange values" to which many socialists are hostile. The emphasis on output at any cost leads to a "productionist" bias in which the state finance system is seen as the handmaiden of the "real" sector.

Triumphant revolutionaries must also address the problem of hierarchy and labour relations within state firms. Once again, precisely because such relations take place within

⁴²That is, the firm could maximize its profit, subject to hiring so many workers, meeting such and such a level of working conditions, etc.

⁴³As Herbert Simon argued, "the values taken as organizational objectives must be definite, so that their degree of realization in any situation can be assessed" (1965, 50). The failure to clarify objectives may hurt worker morale as well as management decision-making. Che Guevara commented that, during the Cuban missile crisis, "industrial production did not fall, absenteeism disappeared, and problems were solved with unprecedented speed." Guevara attributed this to the "great patriotic impulse" of the crisis. But he went on to note that during the crisis firms were freed from "functions which are secondary, though necessary in a normal social process" (1985, 2:181f). This latter aspect of the emergency atmosphere, as well as patriotism, may contribute to the observed increase in efficiency and a reduction in "bureaucratism."

the state complex, they lose the veneer of quasi-inevitability that accompanies capitalist labour relations in their hour of hegemony. After the revolution, labour relations within the state sector reflect back upon the nature of the revolution itself. The drive for productive efficiency can itself injure political alliances. Some optimists, such as Guevara, believe that there is no fundamental dilemma here, that the new regime can generate rising productivity through entirely socialist means:

We affirm that within a relatively short period of time, the development of consciousness can do more to stimulate production than material incentives (1985, 2: 264).

Hence, argued Guevara, there is no real need to attempt to "defeat capitalism with its own fetishes" (Ibid., 2:687), by relying on material incentives.

Socialist practice, however, has tended to reflect the pessimism of those such as Preobrazhensky, who argued that

The socialist incentives to labour do not drop from heaven; they have to be developed through a prolonged re-education of human nature as it has been shaped in commodity economy, re-education in the spirit of collective relations of production (1965, 193)⁴⁴.

Unless Guevara's optimism should some day prove justified, therefore, victorious revolutionaries can expect to confront a tension between the goals of increasing labour productivity and abandoning such "fetishes" of capitalism such as piece-work and "Taylorism." We will see in later chapters that the Sandinistas vacillated on the nature of appropriate incentives to work.

The last dilemma to be examined here concerns the relation between revolutionaries and "specialists"⁴⁵. Because they come to power in situations of relative backwardness, catch-up socialists cannot be terribly choosy when staffing the new state. They invariably find that the requirements of the state complex are vastly greater than the supply of politically reliable specialists. The problem is exacerbated by the fact that, even

⁴⁴Could "re-education" ever achieve the task set for it here? Perhaps, in a socialist regime that enjoyed a high level of support, significant gains could be made in the promotion of "the spirit of collective relations."

⁴⁵Specialists will be understood here as professionals and other highly skilled workers.

in the midst of such a shortage, the state is expanding its activities into new fields. Thus Guevara commented in 1960 that Cuba needed

specialists, and note that I do not say revolutionary specialists, which would be the ideal. We simply need specialists, whatever their [social] category, whatever mental structure they may possess... (1985, 2:44).

This problem was to a large extent ignored in classical Marxist thought. One finds in Marx's The Civil War in France, for example, as in Lenin's State and Revolution, a utopian belief that the world can run itself without special expertise. Engels, writing in 1891 to Bebel, expressed the belief that, by the time the German Social-Democrats came to power (which Engels was "almost absolutely certain" would occur within the decade), the party would have

recruit[ed] enough young technicians, doctors, lawyers and schoolmasters to enable us to have the factories and big estates administered on behalf of the nation by Party comrades (Marx and Engels 1942, 491ff).

This, of course, was not the Bolshevik experience. Once the period of War Communism had drawn to a close, managerial positions in the new state were held in large part by "survivors of the former régime" (Carr 1958, 26). A 1922 survey found that only 9% to 13% of bureaucrats supported the Bolsheviks (Griffith-Jones 1981, 70).

This state of affairs led Lenin to comment in 1922 that,

[i]f we look at Moscow with its 4,700 communists in positions of responsibility, and if we compare that to the immense bureaucratic machine, to that great mass, we must ask who is directing whom?

Lenin went on to recall that, often in history, conquered peoples had succeeded in imposing their culture on their conquerors (1971, 317). By implication, the Bolshevik "conquerors" of Russia were in danger of being overcome by the old bureaucratic culture, a culture intimately related to the interests of the former dominant classes.

The problem of having one's efforts to direct society mediated through a state bureaucracy that is in large part a relic of the previous regime has led socialist leaders to hope that the new regime can produce bureaucrats in its own image and likeness. The FSLN would share this hope. Two key questions are how long such a creation of new socialist bureaucrats might take, and whether "new specialists extracted from the classes of

workers and peasants" (Guevara 1985, 2:130) will necessarily be a more pliant medium through which the will of the leadership is expressed.

2. The Nicaraguan state complex

The Sandinistas' formation of the "People's Property Area" (*Area Propiedad del Pueblo*, or APP) began with Decree 3, issued on the new junta's first day in office⁴⁶. The decree confiscated without compensation "all goods belonging to the Somoza family, members of the military and officials who have abandoned the country since December 1977." This measure alone gave the government control over between 20% and 25% of both the agricultural and industrial sectors⁴⁷. The entire banking system was nationalized on July 26. Owners of private banks were to be compensated according to the book value of their holdings, in five-year low-interest bonds.

This measure was less significant for the assets seized than for the "commanding height" it gave to the state. In fact the private banking system was close to bankrupt at the time of the nationalization (ECLA 1979, 13). But because of the cyclical nature of agricultural production, Nicaragua's agrarian bourgeoisie was deeply dependent on the banking system. The Sandinistas hoped that this one measure would give it significant control over private production.

Traditional exports, including coffee, cotton and sugar, were brought under state control in early August⁴⁸. Decree 137 nationalized the mining sector in early November.

⁴⁶Unless otherwise noted, all laws and decrees are cited from JGRN (1979-88). "Decrees" were issued by the Government Junta for National Reconstruction from July 20, 1979, to the end of 1984 (some had also been approved by the Council of State; in any case, a Decree required junta approval to become law). "Presidential Decrees" were issued by President Daniel Ortega from January 1985 to early 1990. "Laws" were passed by the National Assembly from January 1985 on. All three types of laws are numbered consecutively.

⁴⁷The decree gave the state control over 43% of farms over 350 hectares in size (Baumeister 1985, 64).

⁴⁸The export products brought under state control represented about two-thirds of the value of Nicaragua's 1978 exports.

Though the decree provided for compensation for mine owners, it contained a clause reminiscent of Allende's nationalization of the Chilean copper mines: compensation could be diminished to take into account "the human damage, and ecological deterioration" caused by mining activities, and "fiscal evasion"⁴⁹.

Apart from some other minor sectoral nationalizations (e.g. insurance and electrical companies), the foregoing decrees created the bulk of the APP. Future nationalizations would generally take place on an ad hoc basis. The state sector was therefore an odd beast: while sectoral nationalizations gave the state coherent control in some sectors, the blanket nationalization of the Somoza holdings also gave the government control over a hodge-podge of activities that reflected no grand strategy. This was particularly the case in the industrial sector. As Weeks (1985b, 289) argues, "While the business empire of the Somoza family was no doubt rationally organized for the purpose of private profitability, it had a structure of little use for purposes of economic planning"⁵⁰.

Apart from expanding the size of the state sector, the creation of the APP dramatically increased the economy's monopoly sphere, and reduced the scope of competition. Table C.1 presents a partial list of activities monopolized during the 1979-1981 period.

a. Goals of state firms

Early statements on the goals of the APP reflected the typical confusion noted above. In early 1980, Minister of Planning Henry Ruiz stated that public firms should: meet urgent needs; consolidate new relations of production; promote workers'

⁴⁹The Allende government's nationalization decree deducted \$774 million "in alleged excess profits" from the compensation to be paid to the Anaconda and Kennecott mining companies (NYT 29-09-71).

⁵⁰Weeks goes too far, however, in arguing that "even state enterprises bought their inputs and sold their output as any capitalist enterprise might do" (Ibid.). It will be argued in future chapters that state industrial enterprises exhibited the emphasis on gross output and the lack of concern for financial results which, it has been argued, are typical of socialist economy firms.

participation; and "above all, focus all efforts on generating larger surpluses" (B 20-04-80).

But could firms attend to the first three tasks while devoting "all efforts" to the fourth?

Similarly, the 1980 economic plan of the Ministry of Planning (MIPLAN) presented a confused picture. For example, the plan's industrial sector programme included among its objectives:

maximization of production of food products, popular clothing, medicine, construction materials, and basic inputs for both agriculture and the aforementioned industries;

taking into account [the previous objective], maximization of industrial employment;

maximization of exports, and rationalization of imports (MIPLAN 1980, 47f).

The generation of a surplus was not included among the goals of the sector.

This lack of attention to profitability was defended in the name of a "higher" conception of efficiency. As Jaime Wheelock argued,

efficiency must be social in nature. If, in an effort to obtain surpluses we forget the salaries, the workers' social benefits and the unemployment problems caused by agricultural activities for export purposes, we will be transferring to society an element of instability which represents the cost of social inefficiency (JPRS 76302).

Throughout the FSLN's decade in power, public statements on the objectives of state firms would continue to have the "wish list" quality of the statements cited here. Even after a shift to greater financial rigour after 1985, planning documents would continue to ignore the tension between financial responsibility and output maximization.

The goals of the state sector would also be confused by what might be termed a "dollar fetish": the view that only objects acquired with foreign exchange are important for economic development. The actions of many state bodies would demonstrate this fetish. Commenting on the lack of profitability of state farms, Joseph Collins, an occasional advisor to the Ministry of Agriculture, wrote:

Some argue that the volume of production should be considered more important than profits. For it is the cotton, sugar or coffee (or locally grown food substituted for imported food) that earns the dollars or other "hard" currency that the economy needs. In this view of profitability, the only cost that truly makes a difference is the foreign exchange cost of imported inputs such as tractors and fertilizers. Proponents point out that

córdoba costs are not the same for the state enterprise as for the private enterprise since the government can print córdobas... (1982, 65)⁵¹

The statement is an eloquent example of the illusions which control over the "printing press" can foster. Though the 1980 economic plan warned against recourse to monetary emission, Nicaragua would eventually come to suffer one of the worst cases of hyper-inflation since the Weimar Republic.

b. Contradictions within the new state

Like other socialist revolutionaries before them, the Sandinistas found that staffing the new state was very much a problem of pouring new wine into old wineskins. Tomás Borge commented in 1981 that

our revolution, like others, has the acute problem of scientifically trained cadres. Within the bourgeoisie there are elements who were educated in famous universities, but the contradiction is that those who held the barricades or went to the mountains are not the gentlemen who were educated at Harvard (1981a).

One observer argues that, in 1979, most "sinecure-oriented bureaucrats simply shifted their loyalty with the change in regime." The Somocista state's more skilled administrators, on the other hand, "generally opted to exit." "The result was pulverization of the state apparatus" which left the Sandinistas with a "soft state" (Graham 1987, 19). Though the most highly trained specialists may have left, those who remained wielded significant influence in the new state, according to another observer, since they enjoyed the advantage of greater experience over the new cadres placed in the state by the Sandinistas (Bernaes 1985, 144).

⁵¹Collins, or the "proponents" he is citing, confuse two fundamentally different strategies here: volume-maximization and net foreign exchange maximization. In the former strategy inputs are increased until the marginal productivity of every input equals 0. In the latter case, the increase in imported inputs stops when the dollar value of their marginal productivity equals their dollar cost, a level below the volume-maximizing level.

Neither strategy is particularly rational. Each strategy holds that its particular objective function, be it production or foreign exchange, should be maximized "whatever the cost." These are simple strategies, but dangerous ones.

The Nicaraguan government would soon begin to sign cooperation agreements with various socialist governments, that would provide for the overseas training of thousands of Nicaraguan students. By late 1982, there were 700 Nicaraguans studying in the USSR, and Cuba had granted a further 1,200 scholarships (FBIS 23-12-82). It was hoped that the return of these students to Nicaragua in the mid- and late-1980s would help create a civil service that combined expertise with loyalty to the revolution⁵². In the meantime, as one National Directorate member put it, "political and ideological orientation" would seek to guarantee at least the neutrality of professionals and specialists, who were

accustomed to high incomes, accustomed to developing values that revolve around the brand of their car, their credit card, the social club to which they belong, or the clothes they wear (Arce 1980a, 8).

It was noted in chapter two that socialist states have not escaped from the problem of "bureaucratic politics," and that these states should be seen as "poly-cephalic," a reality ignored by orthodox writing on planning. Divisions between state bodies was accentuated in the Nicaraguan case by the projection of the FSLN's three tendencies into the new state. The rhetoric of unity carefully respected by all the members of the National Directorate after taking power made it easy to forget the intense bitterness of the splits of the mid-1970s. Indeed, it would become clear after the FSLN's 1990 election loss that the old wounds had never really healed⁵³.

Only one member from each of the three tendencies held positions in the first post-victory government, which represented a temporary compromise with the non-FSLN forces that had opposed Somoza. The three were Daniel Ortega for the Insurrectionists

⁵²One opponent of the Sandinistas commented:

The Sandinistas seem to be waiting for the thousands of young boys and girls currently being trained in communist countries to return to Nicaragua. The government may then proceed to nationalize the whole economy (Cruz 1987, 46).

⁵³Humberto Ortega would comment in a post-election interview that if either of those other two tendencies had prevailed in the discussions [before 1979], the FSLN never would have assumed power in Nicaragua. But the most correct tendency prevailed, the one we led, the insurrectional tendency. At the present time the same thing is happening again (1990, 14).

(member of the government junta), Tomás Borge for the G.P.P. (Minister of the Interior in charge of police and state security), and Jaime Wheelock of the "Proletarians" (ironically, Minister for Agrarian Reform). But by late December 1979, cabinet positions had also been given to Henry Ruiz of the G.P.P. (Planning) and Humberto Ortega of the Insurrectionists (Defence). At the same time, Jaime Wheelock added the Agriculture portfolio to his duties.

Thus, by the end of 1979 the three tendencies of the FSLN had marked out their respective "turfs" within the state. A leading Sandinista would later comment that "having members of the National Directorate in the government, it was easier to give each a quota of power" (Martínez Cuenca 1990, 108). The Carter-era United States Ambassador to Managua, Lawrence Pezullo, would later comment that "This isn't a government but a series of fiefdoms with a thin veneer covering the anarchy" (WSJ 15-09-81). Since the G.P.P.'s Borge built up significant security forces in his Interior Ministry, the Sandinistas effectively accepted a situation of dual military power, though the growth of the Defence Ministry in the mid-1980s would unbalance this initial rough equilibrium. As the rump tendency, Wheelock's "Proletarians" placed only one member in the cabinet, and controlled no forces of coercion. Wheelock, however, would make the most of the cards he had been dealt, turning MIDINRA into an enormous "super-ministry" (see chapter five)⁵⁴.

It is hard to know to what extent inter-institutional rivalries reflected the prolongation of the tendencies within the state, as opposed to the normal fact that different tasks and bureaucratic locations generate different outlooks⁵⁵. It is safest to say that the presence of the tendencies in the state created a "coincidence of cleavages" that exacerbated problems of bureaucratic politics that would have existed in any case. Thus,

⁵⁴It is reported that Wheelock's ministry was generally staffed with adherents of his "proletarian" tendency, and some "insurrectionals," while adherents of Borge's GPP tendency were excluded (Gilbert 1990, 47). During the time I worked in the Secretariat for Planning and Budgeting, the successor to Ruiz' MIPLAN, I often heard strong attacks against Wheelock. No other member of the National Directorate came in for such treatment.

⁵⁵Or, as "Miles' Law" puts it: "Where you stand depends on where you sit."

MIDINRA's refusal to submit to MIPLAN's bid for dominance within the state probably reflected both the common tension between production and control ministries and the lingering tension between Wheelock and Ruiz.

3. The Ministry of Planning and "Plan 80"

One institution that sought to overcome state "feudalism," by gaining control over the economic responsibilities of the new state, was the Ministry of Planning (MIPLAN), formed on the day after the FSLN took power. After a brief period in which Roberto Mayorga, a former Secretary General of the Central American Common Market (Weber 1981, 77), headed the ministry, Henry Ruiz became minister in late December 1979. He would hold the position until MIPLAN was transformed into the Secretariat for Planning and Budgeting (SPP) in 1985. Days after assuming office, Ruiz declared his hopes that MIPLAN would become the "manager of the entire economy" (B 30-12-79)⁵⁶. This hope would be stressed also in the 1980 economic plan, which called for a "strengthening of the Ministry of Planning," and a clear identification of ministries such as Wheelock's MIDINRA as "executing institutions" (MIPLAN 1980, 34). This hope would never be realized: MIPLAN never gained control over the state sector, let alone over the economy as a whole.

At the end of 1979, Ruiz presented MIPLAN's "Programme of Economic Reactivation for the Benefit of the People" ("Plan 80"). The plan is the most comprehensive statement of the FSLN's economic strategy shortly after taking power. Both the broad participation in the drafting of the plan and the diffusion given to the finished document indicate the importance which the leadership gave to the plan. Two qualifications to this should be noted, however. The first is that Plan 80's promotion of MIPLAN control of the state did not enjoy the support of the National Directorate as a

⁵⁶On another occasion, Ruiz commented that "the Planning Ministry is and expects to be the backbone of Nicaragua's planning system, that is, the governing agency of the Nicaraguan economy" (JPRS 75491).

whole. The second is that, while the plan promoted a strategy of balanced recovery, it is not clear that the National Directorate ever intended on subordinating other objectives to this strategy. From the very beginning, Sandinista practice diverged greatly from Plan 80's plea for fiscal-financial conservatism.

Plan 80 was an emphatic declaration of the FSLN's commitment to a state-dominant economy. The plan declared, at least five times, that the state sector would be the "central axis" of the economy (MIPLAN 1980, 13, 20, 22, 32, 67). This state dominance would permit "a gradual transition from a *spontaneous* economic regulation to a *conscious and planned* regulation (both programming and indicative planning) for the whole economy" (Ibid., 25).

The plan sought to lay some of the groundwork for this transition. Among the "urgent measures" proposed for 1980 was the formation of twelve "Programmatic Coordinating Commissions," among which would be commissions for agriculture, industry, finance, external trade, etc. These commissions would be responsible for making policy recommendations in their area of competence, and overseeing the implementation of MIPLAN decisions. Each commission would be comprised of representatives of MIPLAN and of the relevant ministries (Ibid., 133ff).

The plan also promoted the "urgent" tasks of developing planning departments within each executing ministry, whose work would be coordinated with that of MIPLAN, and of developing a centralized statistical system and systems of evaluation to monitor the implementation of the plan. Altogether, these points do not constitute much of an indication of how extensive MIPLAN felt economic planning could become.

In examining other elements of Plan 80, we should note that it is primarily concerned with conjunctural, rather than longer-term, questions. Thus, the government was immediately concerned with reactivating the economy after the economic crisis that accompanied the insurrection, and sought to postpone longer-term decisions for a year or

two⁵⁷. This strategy is revealed, for example, in Plan 80's investment programme, which called for 85% of 1980 investment to be directed towards economic and social infrastructure (MIPLAN 1980, 69). This emphasis allowed the postponement of decisions on how investments would be used to reorient economic production.

Apart from its advocacy of a state-dominant economy, the key question of long-term strategy on which Plan 80 was clear was the need to maintain Nicaragua's agro-export focus. The plan noted that Nicaragua had historically possessed a marked comparative advantage in the agro-export sector, an advantage which derived from both a "productive structure which exploited the work force," and from climate and natural resources" (Ibid., 55). It was hoped that, even with an attenuation of exploitation in this sector, Nicaragua's comparative advantage would continue to yield significant net foreign exchange earnings.

In its conjunctural strategy, the plan stressed the importance of "three balances": fiscal, macro, and external. In fact the strategy might best be called one of "controlled imbalance." A fiscal deficit equivalent to 13% of G.D.P. was planned, 80% of which was to be financed externally (Ibid., 75). This stress on containing the fiscal deficit was joined to repeated pleas to avoid inflation. At one point, the plan argued that

upon tax reform depends the living standards of the masses who are defenceless against inflation. If inflation results from a fiscal deficit caused by an insufficiency of legal taxes, that inflation will effectively represent an illegal tax on the poorest (Ibid., 129).

It was thus hoped that inflation, which stood at 70% in 1979 (December to December), could be brought down to 22%.

With respect to external balance, the plan projected a trade deficit equal to 12% of G.D.P. (Ibid., 120) The plan noted that this deficit

implies postponing the costs of the present process of reactivation. It also implies maintaining our external dependence... Economic independence is a gigantic and complex task that will be faced by the Nicaraguan people once a basic level of economic reactivation has been achieved (Ibid., 24).

⁵⁷The scope of this economic crisis will be examined at the beginning of the next chapter.

Thus it was hoped that trade could be balanced after 1981, and that Nicaragua could begin paying off its debt in 1983 (Ibid., 89). In a statement that would take on great significance later in the decade, the plan stated that the trade deficit of 1980 could not be repeated "without threatening the nature of the Sandinista revolution" (Ibid., 86).

With respect to "macro balance," the plan rejected the strategy of stimulating aggregate demand, despite the existence of excess capacity in the industrial sector. The plan argued that such a strategy would be destabilizing because (i) rigidities existed in short-term agricultural supply; (ii) "the disarticulation of productive and commercial structures" had caused a "series of bottlenecks"; and (iii) in general, the pattern of demand growth caused by a strategy of stimulating aggregate demand would not correspond to the pattern of excess capacity (Ibid., 23, 114). Given this analysis of rigidities and bottlenecks, it was expected that services would grow several times faster in 1980 than the goods-producing sectors.

The plan's concern for economic balance led to the rejection of a liberal salary policy. A salary increase, Henry Ruiz warned, would lead to an "uncontrollable increase in prices" (B 31-12-79). It was hoped, however, that real living standards would nevertheless improve through the provision of public services, employment generation, and price controls (MIPLAN 1980, 121, 139).

This strategy for improving living standards reflected a fateful political choice. By implementing policies that would benefit a wide range of Nicaraguans, the FSLN was trying to turn the category of "the people" into a political reality, a broad sector firm in its support of the revolution. The "people" would embrace, above all, the urban poor, and hence was a category much broader than that of salaried workers. This sector had played a crucial role in the final insurrection⁵⁸, and the Sandinistas felt that the consolidation of the urban poor's support was crucial for the survival of the revolution.

This focus on the urban poor was not without costs. It was noted above that

⁵⁸Tomás Borge referred to "this great marginal sector of our society, the sector that beat the drums and wielded the contact bombs of the final insurrection" (1984a, 88).

Nicaragua's post-World War II development had led to strong rural-urban migration. Nicaragua thus had an urban labour surplus and a seasonal labour shortage in rural areas. Unless policies to benefit "the people" were implemented as quickly in rural areas as in the cities, a new impetus for migration into the cities would be created. Increased migration could even nullify the perceived benefits of government policies⁵⁹. The same urban focus could also lead to neglect of the needs of the peasantry.

The stress on "the people" would have serious consequences for salaried workers. It appears that the leadership was fearful of creating a "labour aristocracy" among salaried workers, and was also desirous of channelling workers' energies away from "economistic" demands for salary increases. "Salary," proclaimed Henry Ruiz, "is a trap created by capitalism" (B 22-12-79). It would soon become clear, however, that government policies were turning salaried workers into an underclass rather than an aristocracy. The purchasing power of salaries dropped steadily through the 1980s, eroding labour supply in the formal sector and thus working against the consolidation of a socialist economy. Various unsuccessful attempts to reverse this decline would be undertaken in the economic reforms from 1985 on.

Though the strategy of salary restraint and expansion of social services sought to tailor the demand of the popular classes to the foreseeable supply of "popular" goods and services, it is interesting that no similar analysis was applied at the other end of the social spectrum. Both government policy and practice discouraged the importation of non-basic consumer goods. But I have found no discussion in any government document of the tensions that might arise between this practice and the fact that many professionals and bourgeois would be permitted to continue to earn high incomes. This tension would in fact soon contribute to a burgeoning unofficial market.

⁵⁹Zinoviev complained in 1925 that creating jobs for 2,000 workers in the cities would draw another 10,000 peasants from the countryside. "You cannot empty this sea of unemployment with a teaspoon," he warned (cited in Carr 1958, 366). This paradoxical effect of policies aimed to benefit the urban population was incorporated into Todaro's (1969) model of rural-urban migration.

Stephany Griffith-Jones has argued that Plan 80's concern for economic balance, and particularly its focus on financial responsibility, makes Nicaragua a unique case among socialist revolutions (1983, 596). The actual practice of the government would do much to dissipate this image of uniqueness. The concerns for balance expressed in the plan would repeatedly be dismissed by FSLN leaders as conservative and "technicist," though none of the leaders would ever criticize the plan itself. Indeed, the plan would play a role within the party analogous to that played by the Catholic Church within Nicaraguan society at large: highly respected, but little heeded.

4. Price policy

In their 1978 political programme, the FSLN's insurrectional tendency had promised that "The Sandinista Government will control the prices of all primary necessities: food, clothing, medicine" (FSLN - Insurrectional Tendency 1979b, 249). Upon coming to power there was probably no dissent with the high government official who stated that "price controls perform an essential function in the construction of a more humane society" (B 10-10-79).

A number of early measures indicated the government's intent to regulate prices. The National Emergency Law decreed on July 22 (Decree 10) provided for prison terms of up to two years for anyone changing prices on any good or service whose price had been officially set. The state of emergency declared under this law would last until April 1980. In October 1979, a price freeze for basic products was announced. This was followed by controls on the marketing of basic food products such as beans and maize⁶⁰. In late December, decreases in house rents of 40%-50% were decreed (B 20-12-79). There are numerous indications of difficulties in enforcing these decrees. A January 1980 communiqué of the Ministry of Internal Trade had to remind people that the penalties for

⁶⁰Upon the announcement of this last measure, a *Barricada* headline proclaimed that ENABAS, the state agency charged with enforcing the controls, had "decreed an end to the exploitation of the people" (B 13-11-79).

charging excessive prices provided for under Decree 10 "are in effect now" (JPRS 75121). Other reports indicated that few Managua stores were respecting the official price lists (JPRS 75214; JPRS 75263).

Plan 80 suggests that the government had not yet confronted the dilemmas inherent in the definition of price policy. The plan declared that "the price level is one of the most visible faces of our Revolution." The fundamental objective of price policy was to be the "defence of the [real] salary of those sectors with the lowest incomes." Yet this must be done without either "disincentivizing production" through low prices to producers, or creating "an excessive cost for the State via subsidies" (MIPLAN 1980, 96). The plan argued that "under conditions of real shortages, true price controls can only be achieved through rationing," yet declared that such a move "is not desirable under present conditions" (Ibid.).

The plan then suggested some initial measures:

we must, first of all: guarantee normal supply through a well organized apparatus of distribution; energetically combat profiteering by intermediaries [*intermediarismo*] and speculation; fix official maximum prices, respect for which the State, aided by the mass organizations, will continually monitor, severely punishing any infraction (Ibid.)

The plan also stated that prices established by "the organism charged with setting them," which was left undefined, would not be based on the results of "competition," but on a "rigorous analysis of cost," with the application of a determined profit margin for both producers and intermediaries.

Two observations are in order here. The first is that, by abandoning market-determined prices in favour of cost-determined ones, without putting in place a rationing scheme, the plan was essentially opting for "rationing by queues" and its attendant "sellers' market"⁶¹. Secondly, it is significant that, while the plan did occasionally mention state accumulation, no such mention occurred in the section devoted to price policy. For the

⁶¹On the consequences of sellers' markets, see Kornai (1971). There were reports that Castro had warned the Sandinistas not to repeat Cuba's "error" of implementing a rationing system (NYT 31-01-80; NYT 09-07-80).

time being, the desire to generate popular support by keeping the prices of basic goods down was the prime determinant of policy.

To summarize to this point: the initial questions the Sandinistas had to address in their quest for a socialist economy resemble those confronted by other socialist revolutions. As have other revolutionaries, the Sandinistas failed to address some of these questions clearly, such as the objectives of state firms. The Sandinistas also resemble other revolutionaries in their hope that specialists trained within the revolution would resolve the tension between expertise and revolutionary loyalty.

Unlike other cases, initial Sandinista strategy proclaimed the importance of financial and other forms of economic balance, and sought to avoid inflation. Yet these concerns would not be translated into practice. Finally, the government's main initial programmatic statement, Plan 80, paid but lip service to the problem of state accumulation, reflecting instead the young government's concern with alliance building.

There were thus similarities between the FSLN's initial situation and that of other revolutionary movements. There were also significant differences. One of the most important of these sprang from the FSLN's decision to seek a long-term *modus vivendi* with the bourgeoisie. This decision must now be examined.

C. The dilemma of the bourgeoisie

Victorious revolutionaries who seek to pursue a path of "catch-up socialism" find themselves in a complex relation with the bourgeoisie. This complexity is in large part a reflection of the very backwardness within which catch-up socialism is born.

One can find three stylized stages in Marx's analysis of the productive roles of owners of means of production⁶². In a first stage, corresponding to pre-capitalist situations and to the earliest manifestations of what Marx calls "manufacture" (1954,

⁶²No claim is made here that each stage is "inevitable" in any given situation.

318ff), the owners of the means of production play either no role or a very limited one in the actual organization of production. Most importantly, they do not monopolize directly productive knowledge, which remains diffused through the direct labourers, because "changes in the methods of production by the subordination of labour to capital" have not yet occurred (Ibid., 180).

In a second stage, the owners of the means of production may monopolize an important segment of productive knowledge, in particular "organizational technology." This second stage begins when changes in methods of production leave only the owner with an overall view of the firm's activities. The second stage, in Marx's scheme, slowly passes into a third stage as the owner increasingly hands tasks of supervision and management over to salaried employees (1959, 386). At the extreme, the capitalist comes to be a "coupon-clipper," not far removed from his feudal counterpart, in that he lives off production without taking any direct part in it.

Part of Marx's hope in the long-run ability of socialism to attract support rested on his belief that the evolution of capitalism, by transforming most capitalists into coupon-clippers, would reveal the parasitical nature of private ownership of the means of production (see chapter 2). He clearly believed that many English capitalists had already reached this third stage. A question that is now troubling some Eastern European theorists is whether this third stage ever really arrives. The question is whether, even in theory, the bourgeoisie can ever be seen as entirely parasitical. Marx thought so, as he identified the productive activities of the bourgeoisie with "the work of supervision" (1959, 386f). These activities, obviously, can be delegated to paid management.

The troubling question is whether more "entrepreneurial" tasks, those that involve identifying new opportunities for profit and pursuing them, can be so delegated. Some analysts of the economic disequilibria of socialist economies suggest that this entrepreneurial activity provides the capitalist economy with much of the flexibility that socialist economies so conspicuously lack (Kornai 1990; Brus and Laski 1989). Hence, the argument goes, many owners are engaging in a socially useful activity, even if they do not

intervene directly in the supervision of production.

This line of argument need not deny that purely parasitical "coupon-clippers" do exist, nor that the "going rate of profit" reflects factors that Marx adduces, such as monopolization of the means of production and compelled surplus labour. But it does hold that entrepreneurial activity can perform a socially useful function, even while it serves to establish the "going" profit rate⁶³.

Accepting for the sake of argument that such a third stage might be reached, one can distinguish the distribution of productive knowledge in the three stages. In the first stage, productive knowledge is diffused. In the second, it will tend to be concentrated among the owners of the means of production. In the final stage, productive/organizational knowledge will be concentrated in a group of specialists.

If the government wishes to avoid significant economic disruption in the post-insurrection period, in a situation of overall shortage of advanced productive knowledge, it cannot afford to alienate (i) the owners of the second stage; and (ii) the specialists of the third stage. At a purely technical level, it can afford to move against the owners in the first and third stages.

This picture becomes more complicated if the different groups examined here are interrelated, for example by family links or by a common ideology. In this case, an attack on the "parasitical" owners of the first and third stages could threaten members of the two groups that one does not wish to alienate. If such links exist, it will be vital to weaken them before attacking the "parasitical" groups⁶⁴.

Using this three-stage schema, one can hypothesize that revolutions in conditions of backwardness will generally tend to find owners in the first two stages. Hence, while

⁶³This fact can be obscured by the abstractions of both Marxian value theory and neo-classical thought: over-reliance on the assumptions that prices equal values, or that markets are in equilibrium, can cast a veil over the human activities that serve to establish these conditions (to the extent that they are established at all).

⁶⁴In a similar vein, Lenin (1968, 278) defines the "whole essence of socialism" as the separation of "the working peasant from the peasant owner, the peasant worker from the peasant huckster, the peasant who labours from the peasant who profiteers."

the government can move against first-stage owners (absent social links with second stage ones), it faces a dilemma in dealing with second-stage owners. The government needs the expertise of these owners, yet it also seeks to consolidate political and economic hegemony.

Victorious socialist revolutionaries have in fact tried to respect this distinction between first- and second-stage owners. Thus, while the Bolsheviks were quite willing to have rural landowners dispossessed in the immediate aftermath of the revolution, they were more circumspect in their approach to the industrial bourgeoisie. E.H. Carr notes that "Extensive nationalization of industry was thus no part of the initial Bolshevik programme" (1966, 87), and Nove argues that immediately after taking power, Lenin sought close supervision of private enterprise, rather than nationalization (1973, 45). When the Bolsheviks did nationalize industry in 1918, Carr argues, this nationalization remained purely formal for a time, as the former owners were allowed to continue managing their firms until further notice (1966, 104).

Similarly, Kaser and Zielinsky note that much Eastern European industry remained in private hands in the immediate aftermath of World War II (1970, 21). In the case of Cuba, Carlos Rafael Rodríguez claims that the early policy of the Castro government did not rule out, in principle, the long-term participation of at least part of the national bourgeoisie (1978, 124ff).

Nevertheless, in all of the cases mentioned, the industrial bourgeoisie was to disappear from the scene after a few years, long before it had completed its "historical mission." The dilemma between the need to consolidate control versus the need for bourgeois expertise was in each case resolved in favour of control. Nicaragua is in this respect an unusual case. Let us first examine the situation facing the Sandinistas when they took power in 1979.

1. The Nicaraguan bourgeoisie

At a strictly technical level, the FSLN certainly faced productive sectors in the

first two stages, and perhaps some in the third⁶⁵. Moreover, the FSLN did face complicating family and ideological links between the different types of owners, and between owners as a whole and the specialists.

Traditional cattle ranches owned by absentee landlords, or land rented to peasants using traditional technology, would be examples of the first stage. The so-called "uncouth bourgeoisie" (*"burguesía chapiolla"*), medium-scale farmers who participated directly in production, and many owners of small-scale industries, represented second stage owners.

Other sectors of pre-revolutionary Nicaragua are harder to classify. A 1970s study of coffee producers found that a majority of medium producers, and 67% of large ones, did not reside on their farms (Colburn 1984, 504). While it might appear that such absentee landlords probably did not monopolize much directly productive knowledge, it is significant that the technological level of coffee production, and yields per hectare, varied directly with farm size. Unlike traditional cattle owners who bore a simple rentier relationship to low-yield farms, then, by the 1970s the coffee bourgeoisie was apparently engaged in entrepreneurial tasks: assuring access to credit and productive inputs, marketing production, and ensuring that a higher technological level of coffee production was sustained. Such was also the case with cotton producers, though many of them also did not directly supervise production. As was noted above, cotton producers were generally well trained, and observers argue that they wielded valuable technical skills.

Thus, at a purely economic level, had the Sandinistas immediately "expropriated the bourgeoisie," as some leftist critics hoped they would, a serious economic crisis would

⁶⁵One attempt to outline empirical boundaries for the class estimates that just over 2,000 Nicaraguans remained in the "haute bourgeoisie" in 1980, after the wave of anti-Somozist expropriations had been completed. The bulk of these 2,000 belonged to the agrarian bourgeoisie. A further 40,000 Nicaraguans were classified within the "middle bourgeoisie" (PP, July-August 1983). The same analysis considered the "haute bourgeoisie" to include those owning industrial establishments with more than 100 workers, those owing more than 45 hectares of coffee land, or 140 hectares of cotton land, etc. These must be considered rough and ready boundaries, particularly in the agricultural sector, given the vast differences of yield per hectare for land of varying quality, and for different technological levels. Nevertheless, the calculations are useful in indicating the demographically minuscule size of Nicaragua's "haute bourgeoisie."

most likely have resulted. But the FSLN also sought to reach an *entente* with the bourgeoisie for political reasons. As was noted in chapter three, part of the FSLN's success in overthrowing Somoza lay in its tactical alliance with important segments of the bourgeoisie. To have turned on that bourgeoisie immediately after assuming power would have cost the FSLN dearly in terms of both domestic and international support. The FSLN had come into power with the aid of many international forces, some of which were hostile to the party's long-term political project. Humberto Ortega (1981a, 29) had insisted, as an element of the insurrectional strategy, upon formulating a party program that would garner broad international support, "from the majority of the progressive forces in the world-- not just the socialist forces".

The continued support of these forces was vital for the immediate prospects of the revolution, but that support depended upon projecting a moderate international image. The "progressive" but "non-socialist" international forces that supported the FSLN were watching closely, among other things, the FSLN's relationship to the bourgeoisie. Thus, one of the first editorials of Barricada, the FSLN's official newspaper, warned against the expression of radical popular demands, since the country urgently required external aid that would only come if there were "normalization" (B 01-08-79).

Agreement with the bourgeoisie was also helpful in securing aid from sources that could hardly be described as "progressive." The FSLN's caution with respect to the bourgeoisie allowed the conservative The Economist magazine to comment as late as 1981 that "Nicaragua is not lost yet... the United States could yet follow Mexico's sound advice to stick a fistful of dollars through a door that remains even a quarter open" (cited in Ryan 1982). Jimmy Carter's Assistant Secretary for Inter-American Affairs, Viron Vaky, articulated the aims of this approach quite clearly:

If the non-Marxist elements can continue to function and the Sandinista-controlled government can be kept tied into the West's political economy, a Marxist regime can be prevented from consolidating. In time, such an evolution could come about even in spite of the Sandinistas. The implicit conclusion is that it is essential to supply aid to keep the monetary/economic system viable and enmeshed in the international economy, and to support the private sector (cited in Ibid.).

Domestically, there is no reason to believe that the FSLN could automatically count on broad support for an expropriation of the bourgeoisie. The leadership attributed the problematic nature of this support to the underdevelopment of the country's popular classes, which had not yet acquired a sense of their own long-term interests; which is to say that, for the leadership, they were not yet classes in the fullest sense. Thus the very first issue of Barricada proclaimed "the constitution of an active working class" as one of the prime objectives of the revolution" (B 25-07-79)⁶⁶.

Thus, for both political and economic reasons, the Sandinistas decided they would have to pursue their political project in coexistence with the bourgeoisie, at least for a time⁶⁷. But how likely was this class to tolerate the FSLN's attempt to develop a state-dominated mixed economy? There are contradictory indications on this question.

On the positive side of the ledger, the Sandinistas faced a bourgeoisie suffering from its own internal contradictions. Foremost among these was the contradiction between the economic interests of the Somoza family and the rest of the bourgeoisie (above, chapter three). The disdain of the bourgeoisie not directly linked to the ruling family towards the Somoza sector allowed the triumphant FSLN to expropriate the industrial and agricultural holdings of the Somoza family without significant objections⁶⁸.

The FSLN could also hope to profit from contradictions between medium- and large-scale producers, and between those integrated into "economic groups" and those on the margins. Thus, in August 1979, Daniel Ortega could promise that the revolution

⁶⁶For other FSLN statements on the underdevelopment of Nicaragua's popular classes, see chapter three.

⁶⁷A leading Sandinista diplomat would later comment
In 1979 we weighed the national, regional and the international balance of forces as best we could in making our major policy decisions. To put it cynically, the question was how much could we get away with without being clobbered on the head by the reactionary forces at large (Bendaña 1991).

⁶⁸This is analogous to the situation in immediate post-war Czechoslovakia, where the property of Germans and Hungarians was expropriated without threatening property owners as a whole (Griffith-Jones 1981, 82).

would promote not just "popular" interests, but also those of sectors "that did not have the opportunity to develop under Somoza" (B 13-08-79). The critical question would be whether the Sandinistas could effectively formulate policies that distinguished between these various capitalist sectors.

On the other hand, it has also been argued that the Sandinista project of a state-dominated economy clashed with the "backwardness" of the Nicaraguan bourgeoisie. "Perhaps it would have been easier," commented Sergio Ramírez in 1981, "for a less backward, less primitive bourgeoisie... to understand the rules of the game" (Ramírez 1987, 179). The Sandinistas, argued Argentine observer Carlos Vilas, sought to ensure

the effective functioning of private property as a means of production, not as means of earning a rent. But this implies a state that supervises, through various instruments and channels, the unfolding of this productive function. This is of course a normal aspect of any modern state..., but it was too much for a good part of the Nicaraguan propertied classes (1984, 238).

It is true that, though the Nicaraguan bourgeoisie had suffered from certain arbitrary actions of the Somoza regime, it had little experience of systematic regulation⁶⁹. An ECLA document comments that, prior to 1979,

Economic policy was characterized by moderation and wholehearted support to the functioning of the market, with few organized social pressures and ability by the Government apparatus to resist such pressures (ECLA 1979, 5).

While the pre-1979 constitution and some laws did proclaim the principle that property must fulfil a "social function" and must be used productively, these principles were not applied to any significant degree⁷⁰.

But to argue that the "backwardness" of the Nicaraguan bourgeoisie was a factor in its eventual conflict with the Sandinistas is to assume that a bourgeoisie accustomed to

⁶⁹A 1978 Wall Street Journal article commented on this combination of non-regulation and arbitrariness. Nicaragua possessed, the paper commented, "a laissez-faire legal structure that should draw outside capital like flies to honey." Yet this was not occurring, allegedly because the Somoza family demanded some share of the "action" on all foreign investments (WSJ 23-02-78).

⁷⁰On the pre-1979 legal environment for business, see Tijerino and Palma (1978).

government regulation in a capitalist environment would be tolerant of the regulation imposed by a Marxist-oriented government. This is in fact a double assumption: (i) that the quality of regulation will not vary significantly between the two types of governments; and (ii) that the bourgeoisie will maintain a "micro" perspective, taking into account only the content of the regulations to which it is immediately subject, and not the broad socio-political situation in which it finds itself. Both assumptions are questionable; the second is particularly problematic, and in fact assumes a bourgeoisie that is "backward" from the point of view of class formation. That is, to believe that the bourgeoisie will maintain a "micro" perspective assumes that this group is mired in an "economistic" attitude that prevents it from acting as a true "class-for-itself." Yet this assumption has been made time and again by observers who claim to be unable to understand why the bourgeoisie reacted so negatively to the FSLN's "generous" policies towards them⁷¹.

Far from attributing the conflicts between the FSLN and the bourgeoisie to the latter's "backwardness," I believe that the Sandinistas in fact faced a class-conscious bourgeoisie, and that they did their best to make it less so. The thesis of bourgeois "backwardness" is precisely one of those ideas that minimize the dilemmas of "catch-up socialism," since it holds out the hope that a more "modern" bourgeoisie would have acquiesced to the Sandinista project.

The fact that the bourgeoisie as a whole was not fanatically opposed to any new state role in the economy is shown by the support given by much of that class to the "Plan of Government" issued by the government junta-in-exile in June 1979. The plan was drafted by a group of "40 Nicaraguan experts" convoked by the FSLN, many of who⁷² were

⁷¹ Government advisor E.V.K. Fitzgerald thus claims that the bourgeoisie did not make investments during the Sandinista decade because of an "irrational preoccupation with future property rights." The state was always open to "sectorial" negotiations with the bourgeoisie, Fitzgerald claimed, and in these negotiations it was always "generous" (1989, 33).

prominent in the non-Somocista bourgeoisie (NYT 10-07-79; 20-08-79)⁷².

The Plan of Government merits careful study as it represented a consensus between the Sandinista and the non-Sandinista opposition to Somoza. Drafted at a time when the Sandinistas were desperate to avoid foreign intervention in Nicaragua, the plan is neither a pure reflection of Sandinista thinking nor a "wish list" of the non-Sandinista opposition, but a statement of policies that both sides declared themselves ready to accept.

For the non-Sandinista opposition to Somoza, the Plan of Government would come to represent the so-called "original programme" of revolution, the original programme that some would later claim the Sandinistas had "betrayed"⁷³. The bourgeoisie, in particular, appealed to the clause that stated that the new government would

advance towards the formation of a mixed economy, in which will coexist: an area of state and social property, of clearly delimited characteristics and scope, whose main elements will be defined beforehand; a private sector and a third sector made up of joint or coordinated public and private investments (rpt. JGRN 1980)⁷⁴

Critics of the FSLN would argue that it had failed to define the limits of the state sector, hence undermining the original promise of a mixed economy⁷⁵.

But there was much more to the Plan of Government than the clause just cited, and it is indeed remarkable that much of the bourgeoisie used the plan as the basis for its political activity. The plan vested in the state control over: "natural resources, including mines, forests, fisheries, energy, etc."; traditional agro-exports, representing the lion's

⁷²The plan was in large part drafted by Alfredo César, a former general manager of the largest sugar refinery in the country (Nolan 1984, 141), who had begun collaborating with the FSLN's insurreccional tendency in 1977.

⁷³The members of the government junta reportedly referred to the Plan of Government as "the Bible" (NYT 20-08-79). For the Superior Council of Private Enterprise (COSEP), the country's main bourgeois organization, the plan represented "the acceptable and appropriate framework to channel everyone's cooperation" (JPRS 74894). Note also the appeals to the Plan of Government in Bolaños (1984); Alaniz (1985); Christian (1985, 190); and the Social Christian Party's critique of the FSLN (LP 24-01-80).

⁷⁴For an English translation of the Plan, see the appendix to ECLA (1979).

⁷⁵Other differences between the Plan and Sandinista practice will be examined in the next chapter.

share of Nicaragua's exports; imports of productive inputs for agriculture; and internal prices, including land rents. The plan also called upon the state to channel foreign financing towards priority sectors, and cited the need for both higher tax levels and a more progressive tax system. Finally, the plan called for a "substantive adjustment" in the banking system, that would promote "the national interest and the common good," and "avoid the concentration of economic power."

Thus, the June 1979 Plan of Government, though calling for a clear delimitation of the public sector, also countenanced extensive state involvement in the economy as a whole. Though critics of the FSLN could find in the plan ammunition for their attacks, the FSLN could, and did, invoke the plan to justify its own actions.

An interesting counter-factual question is how the history of the revolution would have been different had the Sandinistas remained within the limits of the Plan of Government. Could the FSLN have avoided conflict with the bourgeoisie and its political allies? Certainly the bourgeoisie would have had much less cause for complaint: it would have enjoyed a greater presence within the state, and greater security of property rights.

One could argue, on the other hand, that the post-1979 bourgeoisie spoke so highly of the Plan only because it felt the plan was not being respected by the Sandinistas, and that it could therefore serve as a political instrument in the campaign against the FSLN. Had the Sandinistas actually maintained an unwavering respect for the limits set by the Plan, it is quite possible that the bourgeoisie would have been less enamoured of it.

One can never know, of course, because the Sandinistas quickly chose another path. However the bourgeoisie might have viewed the actual implementation of the June 1979 Plan of Government, the fact that a significant segment of the bourgeoisie gave even rhetorical support to the plan undermines the image of bourgeois backwardness proffered by some observers of the revolution.

2. FSLN strategy towards the bourgeoisie

As was noted, the June 1979 Plan of Government did not reflect Sandinista

thinking, but a compromise between the FSLN and the non-Sandinista opposition to Somoza. For clues to the Sandinistas' strategy towards the bourgeoisie upon taking power, we may turn to MIPLAN's 1980 economic plan. As was noted above, the "Plan 80" repeatedly declared that the state sector would be the "axis" of the Nicaraguan economy. How did the FSLN hope to attain bourgeois cooperation with this project of a state-dominated economy? The plan simply stated that the private sector must support this process in order to enjoy "state support" (MIPLAN 1980, 32). Given the state's control over financing, this was a significant warning.

A further warning was issued, not in the plan itself, but in Planning Minister Henry Ruiz's public introduction of the plan:

If private enterprise does not become active, if it waits to see what is going to happen here, then the Revolution (sic) will take the necessary measures, and unproductive *latifundia* will disappear. If private enterprise does not understand that the secret of harmony consists in all of us working for the benefit of the people, it will have made a grave error (B 30-12-79).

Thus, the threat of eventual expropriation was added to that of cutting off access to credit. But carrots accompanied these sticks. Plan 80 promised the formation of permanent corporatist-type bodies for the industrial, agricultural and trade sectors, with representation from various social sectors to ensure dialogue over sectoral economic policies. Cooperation with the economic plan would be a "patriotic test" for the bourgeoisie, and a positive response would permit a clearer definition of the "rules of the game" so devoutly sought by business leaders (MIPLAN 1980, 14).

In the industrial sector, the Plan called for production agreements between the state and private enterprise. Such agreements would guarantee the necessary inputs and financing to the firm, at fixed prices, in return for guaranteed delivery of final output to the state. The agreement would guarantee a "reasonable profit rate" (Ibid., 53). There are two points worth noting in this strategy. The first is that, had private businesses been willing to enter into such production agreements, they would have been left in a position quite analogous to state firms in the traditional socialist economy model: the firm would cede -- for the life of the agreement -- decision-making power over sources of supply, and

over the composition and disposition of its production.

A second, and related, point is that the state-private sector relation envisioned in the production agreement strategy left great room for "X-inefficiency" (Liebenstein 1966).

To guarantee private firms cost-based prices was to shield them from the "discipline of the market." Had private firms been interested in entering into such production agreements, economic relations between the private and public sectors would probably have come to be dominated by the same cat-and-mouse games found in socialist economies⁷⁶. In any case, the private sector did not respond to the invitation⁷⁷. It appears that not even Henry Ruiz expected them to: in his presentation of Plan 80, he stated that the private sector could not be planned, only motivated (B 02-01-80)⁷⁸. Yet the proposed production agreements sought precisely to plan the private sector.

Though the Sandinistas felt constrained to accept the survival of the bourgeoisie, they recognized the potential costs of this decision. Acceptance of the bourgeoisie meant acceptance of an inevitable opponent of the FSLN's socialist project, an opponent that wielded considerable economic and ideological influence. The bourgeoisie had close ties to the Catholic Church, and its continued control over economic assets and media outlets meant that it could cause the FSLN economic and political damage, through either direct sabotage or mere passivity. We will see in the next chapter that the bourgeoisie would soon prove willing to bring these assets to bear in an ideological campaign against the FSLN, and that the FSLN would quickly launch an ideological offensive of its own.

⁷⁶Orthodox socialist theory assumes that the centre has the information required to induce X-efficiency, for example by demanding greater efficiency in the use of inputs each year. As was noted in chapter two, however, in socialist administrative practice the problem of efficiency and technological progress was never resolved.

⁷⁷A mid-1980 *Barricada* article complained that the private sector had rejected the idea of production agreements because of its "lack of trust" in the government (B 03-06-80). Dijkstra (1987, 22) notes that some agreements were signed in 1980 and 1981, above all in the area of basic consumer goods. She believes, however, that the strategy died out primarily owing to a lack of interest on the state's part. She does not present any evidence that would permit an evaluation of this assertion.

⁷⁸Interestingly, the "moderate" Sergio Ramírez shortly thereafter described the view that only the state sector could be planned as a "grave error" (LP 30-05-80).

Having no confidence in its long-run relations with the bourgeoisie, the Sandinistas hoped that the bourgeoisie would do out of necessity what it failed to do out of love. It was felt that the state's control over the financial system would give it the leverage to orient the bourgeoisie and divert its resources towards state-determined objectives. As early as 1973, Sandinista theorist Ricardo Morales had commented on the strategic nature of the Nicaraguan banking system: because of the cyclical nature of the agricultural economy, Morales argued, producers were highly dependent upon the financial system in order to complete their productive cycle (1983, 138f)⁷⁹.

Jaime Wheelock articulated the FSLN's hope in the state financial system in an early 1981 speech (1981a)⁸⁰. After the private producer has paid interest on loans, export taxes, income taxes, and so forth,

he will retain some amount of money, probably an important amount. This he will have to keep somewhere, usually in the banks. So this money is also available to be used for the global economy... We have not had to expropriate the means of production, though if truth be told, what we are expropriating are the surpluses.

It would soon become clear that this view was mistaken, and that the FSLN had seriously overestimated the degree to which it could control the bourgeoisie's disposition of its profits. The error lay in considering financial systems in the abstract, isolated from their broader socio-political context. For people to deposit their profits in the bank, they must obviously trust that the financial system will protect the value of their assets, and will return them upon demand. Particularly in the case of a state banking system, this trust depends upon the overall trust placed in the government as a whole. The Sandinista banking system, unlike that which existed before 1979, simply did not enjoy the

⁷⁹As Carr (1966, 136) notes, "The conception of the banks as the controlling lever in a planned and organized economy goes back to Saint-Simon, and had an honoured place in nineteenth-century socialist tradition." The bourgeoisie's COSEP also recognized the centrality of the banking system. In a 1981 document, it declared that "It is important to guarantee the participation of the private sector on the boards of directors of the nationalized banks" (cited in *Envío*, no. 70, April 1987).

⁸⁰See also Ramírez (1987, 93).

confidence of the bourgeoisie⁸¹. Over time, the bourgeoisie would discover a plethora of alternatives to placing their money in the state banking system: using material objects as stores of value, converting córdobas into dollars on the unofficial market, etc. In fact, it will be argued in later chapters that certain government policies would actually create incentives to do this.

The relation with the bourgeoisie would provide a continual challenge for the FSLN. "Men must either be caressed or else annihilated," wrote Machiavelli, "they will revenge themselves for small injuries, but cannot do so for great ones" (1950, 9). The FSLN leaders felt that the conditions under which they took power did not permit them to annihilate the bourgeoisie, but neither their own socialist project nor the ideological orientation of their followers would permit a serious "caress" of the bourgeoisie. This dilemma would prove to be one of the most serious faced by the FSLN.

D. Agrarian reform

The evolution of Sandinista policy towards agrarian reform paralleled the evolution of the socialist economy project. Beginning from a position that emphasized state production, the FSLN would gradually be forced by political factors to accept the growth of "lower" and more "backward" productive forms. Throughout, their policy would reflect the tensions that have historically marked Marxian socialist thinking on the peasant question.

Marx's developmentalist streak led him to insist that the perpetuation of small-hold agriculture implied the perpetuation of "universal mediocrity" (cited in Draper 1978, 318). As early as 1844 Marx warned against land parcelling (Ibid., 406). His arguments against peasant agriculture were based partly on productivity grounds. Marx argued that

Proprietorship of land parcels by its very nature excludes the development of social productive forces of labour, social forms of labour, social concentration of capital, large-scale cattle farming, and the progressive

⁸¹This was not exclusively for political reasons. Decree 89, passed in September 1979, froze term deposits in foreign exchange for a term of one year, and converted interest payments on such deposits into córdobas. This freeze would periodically be renewed.

application of science (1959, 807).

Marx thus wrote to Engels that, without socialization of the land, "Father Malthus would prove to be right" (cited in Draper 1978, 407).

But Marx's view of peasant agriculture also reflected his vision of socialism as the realm of "directly social" labour. "Small landed property," he wrote, presupposes "that not social, but isolated labour predominates." Hence "small landed property creates a class of barbarians standing halfway outside of society, a class combining all the crudeness of primitive forms of society with the anguish and misery of civilised countries" (Marx 1959, 813).

The political dilemma arising from this position is clear: how can a socialist revolution triumph if it is opposed to a property form in which much of the population places its hopes? Marx at some point might have hoped that capitalist development would solve the problem by eliminating peasant production before a socialist revolution became a possibility⁸², but his studies of France *circa* 1848 suggested to him that this might not be the case, and that the peasantry could play an important role in frustrating proletarian aspirations.

Shortly before his death, Engels stated the political problem clearly. "Small-hold agriculture," he confidently declared, "is in decay and is inevitably marching towards ruin." He went on to note, however, that "in the meantime," a workers' party could not take power without a base of support in the countryside. Yet this base must be established "without violating the fundamental principles of the general socialist programme" (Marx and Engels 1969, 3:458ff). Socialists ever since have sought to square this circle.

Lenin grappled with this dilemma throughout his political life. He wrote in the 1890s that socialists must oppose measures to promote the survival of the peasantry. This view was reflected in early Bolshevik programmes (Carr 1966, 26). But the Bolsheviks also knew they were in competition with other parties more sympathetic to peasant

⁸²This possibility is implied, for example, in Marx's 1874 "Comments on Bakunin's book Statehood and Anarchy (Marx and Engels 1969, 2:411).

aspirations. Thus in early 1917 they sought to wrest support away from the Provisional Government by calling upon peasants to take over land, without hurting production (Ibid., 37).

As would later socialists, including the Sandinistas, the Bolsheviks hoped that the political dilemma could be solved by convincing peasants that their future lay in collective agriculture. Attempts in 1918 to foster voluntary collectivization, however, met with "total defeat" (Ibid., 155). The Bolsheviks were thus forced to accept the expansion of peasant production as a price for attaining peasant support during the Civil War.

Throughout the early years of the revolution, however, Lenin remained conscious of what he believed to be the long-term costs of this policy. Even as the party was calling upon peasants to seize land, he declared that only "large-scale production for social account" could "deliver mankind from mass poverty" (cited in Ibid., 37). As did Marx, Lenin opposed peasant production both on productivity grounds and because of its implications for the project of "directly social" labour. On the basis of peasant production, he argued, "capitalism persists and arises anew in a bitter struggle against communism," fostering "private speculation and profiteering, as against state procurement of grain (and other products) and state distribution of products in general" (Lenin 1968, 277). Peasant production, in other words, is a barrier to the socialist economy.

This factor would influence much later Bolshevik policy. It is important to bear in mind that when socialist revolutionaries in power debate the best form of agricultural organization, they will take into account not merely such technical data as output per hectare, but also the relative "productivity" of various forms of organization in generating deliveries to the state⁸³. A state or collective farm may be preferred on these grounds, though total yields are lower than those of peasant holdings. Thus, despite the drops in

⁸³More generally, Stalin argued that
We do not need just any growth of productivity of the people's labour. We need a definite growth of productivity of the people's labour, namely the growth which ensures a systematic preponderance of the socialist sector of the economy over the capitalist sector (cited in Ellman 1979, 16).

harvests owing to the Soviet collectivization drive, grain deliveries to the state increased (Nove 1973, 251).

Like other socialist movements, the FSLN promised peasants an extensive agrarian reform. The party's 1969 programme stated that the revolutionary government would "freely transfer land to the peasants in accordance with the principle that the land should belong to those who work it" (rpt. FSLN 1981, 21). Small-hold production would be respected, though the voluntary formation of cooperatives would be encouraged. The Insurreccional Tendency's 1978 programme ratified this promise, promising that all lands expropriated from the Somoza family and its allies would be given to "landless peasant families and all those who wish to go work the land" (FSLN--Insurreccional Tendency 1979b, 246).

The Sandinistas did not keep these promises, until they were pressured by political factors into doing so. Their initial strategy was to retain all expropriated lands under state control. This strategy was affected by the same views that had influenced other socialist revolutions. There was, first, a belief within the Sandinista leadership that large state farms would be more efficient and that economies of scale outweighed dis-economies at almost any scale of production. Daniel Ortega commented in late 1979 that "It is more profitable for 10,000 peasants to work in a large *hacienda* than for each one to work separately" (B 25-10-79). For Jaime Wheelock, state production was more efficient than both peasant and large private agriculture:

in underdeveloped societies the scale of production of a local owner can never permit the same possibilities for development, for mechanization, for intensive use of technology as exist in a firm managed by the state (1983, 93).

The quest for a socialist economy also created a bias for large-scale production. As an official of the Ministry of Internal Trade told me in 1983, it is much easier to control the rice market, in which forty farms produce 80% of output, than the bean market, with its 250,000 producers. In this respect, large private farms had an advantage over peasant production, since the former could be "submitted to some planning

mechanisms," while small production permitted at best "indicative planning" (Wheelock 1983, 116)⁸⁴.

The leadership saw yet another benefit of large-scale production: its salutary impact upon the peasantry, which was held to suffer from what Jaime Wheelock termed "cultural or ideological weakness" (B 06-03-80). Handing out individual plots, Wheelock argued, ran the risk of returning to the "narrow, rudimentary and primitive" peasant state those who had already reached the "higher historical stage" of the proletariat (Wheelock 1981b)⁸⁵. On the other hand, Wheelock argued, the peasant's participation in "higher forms" of production was part of the process of becoming a "new man" (1986c, 47)⁸⁶. Thus, Wheelock felt that the revolution should eventually abolish both large and small private farms (B 19-08-79).

These comments indicate a great distance between the Sandinista leadership at the moment of taking power and the "actually existing" peasantry. This distance reflected tendencies in Marxism, but it was also an expression of the social origin and guerrilla

⁸⁴Years later, after the FSLN had effectively capitulated to both the peasantry and the market, Daniel Ortega would comment that, if Nicaragua had had the resources needed to develop a high-tech agriculture, "we would not have to take the broad economic measures that we took when we made up our minds to leave to the free market the production of corn, basic grains, and perishables" (FBIS 15-06-88).

⁸⁵Though the modernist Wheelock tended to be more explicit in this view of the peasantry, there is no evidence that other members of the National Directorate differed markedly from Wheelock's view. This view of the peasantry was not easily reconciled with the view that it was one of the "fundamental classes" of the revolution. The contradiction led to some interesting formulations, as when Tomás Borge argued that Peasants constitute an objectively revolutionary social force, though because of their relations with production and because of concrete historical elements they are more backward than factory workers and the agrarian proletariat (B 28-08-84).

Note the confusion here: in Marxist thought production relations are usually the key determinant of "objective" class position. Thus Borge is in essence saying that peasants are "objectively" both revolutionary and backward.

⁸⁶Similarly, Henry Ruiz noted the importance of the political consciousness raising that takes place on the state farms (B 20-04-80), and a Barricada editorial (B 17-07-80) promoted cooperatives for their capacity to overcome the "traditional individualism of the peasant," because they promote "the consolidation of the spirit of mutual cooperation amongst members; the development of consciousness and political motivation; the raising of the peasant's cultural level, and of his living and working conditions."

experience of the leadership. None of the nine FSLN leaders shared the peasant background of much of Nicaragua's population, nor did the peasantry ever participate directly in the movement to the same extent as other social classes⁸⁷.

Fonseca (1985, 1:118) originally followed Guevara (1985, 1:63) in believing that peasants would make up the bulk of the guerrilla forces. After peasant desertions from the Pancasán guerrilla column in 1967, however, Fonseca concluded that peasants should not participate in regular guerrilla columns (1985, 1:163). Peasant participation was thereafter generally limited to logistical support⁸⁸. Tomás Borge would later comment that before 1979 the FSLN "drew only some sectors of the peasantry into the struggle," adding that peasants "are not yet -- nor do I think they ever will be -- the principal force in Nicaragua's revolutionary changes" (Borge 1987b, 60).

The essential urbanism of the movement and its leadership was obscured by the mystique of the *montaña*, the place where the "New Man" is born (Cabezas 1982), the place where the "honest men, those who are sacrificing all for their people" are to be found (Lang 1979)⁸⁹. But the presence of isolated guerrilla columns in remote parts of the country never translated into a close relation with the Nicaraguan peasantry.

Thus, there was neither a peasant penetration of the movement's leadership, nor were the leaders able to understand the experience of the peasantry "from the inside," and

⁸⁷This point has been obscured by various commentators on the revolution. George Black, for example, heads a section of his book "Pancasan 1967: The Peasants Take Up Arms," though in fact the section states that "Many peasants deserted or had to be dismissed, and a number even turned informers. The urban or student cadre by contrast had greater staying power" (1981, 80). Similarly, Joseph Collins (1982) entitles a chapter of his book "The Peasant's Victory," though nothing in the chapter justifies the title.

⁸⁸An exception to this was the Zinica guerrilla column of 1970 (H. Ortega 1979a, 107).

⁸⁹"*Montaña*" is best rendered as "wilderness," rather than "mountain," the more common translation. When Sandinistas speak of their time in "*la montaña*," they are often referring to actions in the low-lying Atlantic part of the country, rather than the mountainous central region. In his El evangelio en Solentiname, Ernesto Cardenal comments that the word "desert" in the Bible "simply means an isolated area, without people, that which we call here in Nicaragua the '*montaña*'" (1983, 1:60).

This mystique is not limited to Nicaragua. Debray held, for example, that "any man, even a comrade, who spends his life in a city is unwittingly bourgeois in comparison with a guerrillero" (1968, 68).

integrate it with their Marxism. After the triumph they would essentially relate to the peasantry "from the outside". Thus it is not surprising that relations with the peasantry proved one of the most serious problems for the revolution. After losing power, Daniel Ortega commented that "To lose something, you have to have it, and the truth is that we didn't lose the *campesinos*, simply because we never had them" (1991).

This distance between the FSLN and the peasantry created an interesting convergence between the Sandinistas and their opponents on the peasant question. After 1979, the Ministry of Agriculture would promote the physical relocation and concentrations of peasants. This resettlement process, accelerated by the "imperialist military aggression," was seen as promoting "high levels of socialization" (Wheelock 1985b, 90f). Thus, the resettlements were a means of overcoming peasant isolation and backwardness, and were thus quite consistent with the outlook of developmentalist Marxism.

The anti-Marxist opposition, however, also favoured resettlement projects. A 1980 statement of the Democratic Conservative Party declared that such projects would allow rural dwellers to "benefit from the advances of civilization and raise their standard of living" (LP 09-03-80). Even though the peasantry had displayed much resistance to such projects throughout the 1980s, the opposition's platform for the 1990 electoral campaign promoted the physical concentration of peasants, in order to bring them "the benefits of civilization" (UNO 1989). This convergence points out the affinity between certain aspects of Marxist and non-Marxist modernization tendencies.

Thus, upon coming to power the FSLN contemplated no "peasant solution" to the problem of landlessness. In a speech to the FSLN-led Rural Workers' Union in December 1979, Jaime Wheelock implied two alternatives for the landless. One was to work on state farms, where each worker was a "Free Person" (sic), because the state was not a "new boss," but a "state of the workers and producers"⁹⁰. The other was to move to a remote

⁹⁰The hope, government advisor E.V.K. Fitzgerald would later note, was that the "semi-proletariat," that large social sector "*disguised in the form of an impoverished peasantry*," would be absorbed in state employment and the 'true' proletariat would be

part of the country. Nicaragua did not lack unused land, Wheelock proclaimed, hence agrarian reform should be, not a "distribution of land," but a "distribution of people and an adventure of colonization" (B 22-12-79). Wheelock here came perilously close to identifying the new government's policy with that of the ousted Somoza regime⁹¹.

Initially, the reluctance to distribute expropriated land extended to cooperatives⁹². Upon meeting a worker who asked that a farm be made into a cooperative rather than a state farm, Jaime Wheelock answered: "The state has revolutionary plans that will increase production in a spectacular fashion, and no-one but the state can globally direct these plans" (B 15-01-80). By mid-1980 only 6.7% of the reformed sector was made up of cooperatives, the rest being state farms (Kaimowitz and Thome 1982, 230).

Though the FSLN's views on the disposition of expropriated land has been examined here as a consequence of the Sandinista quest for a socialist economy, and a continuation of orthodox Marxian thinking on the peasantry, other factors also came into play. Given the symbiosis between landlessness and the needs of the agro-export sector (see above), plans to reactivate that sector could have been frustrated by an extensive transfer of land to the peasantry. Thus, Jaime Wheelock declared that "Handing over land without planning, without a vision of our reality and of our future, would abolish our

constructed as a majority class" (1989, 33; emphasis added).

⁹¹Biderman (1983, 21) notes that the agrarian reform law passed in 1963 during the Somoza dynasty's mildly reformist phase led in effect to "a few colonization projects and the provision of land titles in these and other remote areas to which [peasants] migrated." Ironically, in a 1990 book Wheelock would criticize the Somoza regime for this focus on colonization, and claim that the FSLN knew "from the beginning" that such an approach was unacceptable (1990, 49f).

⁹²Both proponents and opponents of socialist cooperatives can invoke authoritative support. On the negative side there is Marx's view that "To give up the soil to the hands of associated rural labourers, would be to surrender society to one exclusive class of producers" (Marx and Engels 1969, 2:290). On the other hand, Lenin's late article on cooperatives was quite favourable, arguing that "for us the mere growth of cooperatives... is identical with the growth of socialism" (1968, 358). One could argue that Marx was considering ideal socialist arrangements, while Lenin's remarks reflect his pragmatic orientation during the NEP period. In any case, it should be noted that Lenin's endorsement of cooperatives assumed that "the land on which they are situated and the means of production belong to the state" (Ibid.).

export economy" (B 20-05-80)⁹³. One could also make the case that turning expropriated agro-export farms over to peasant cooperatives might have led to part or all of those farms being diverted to domestic crop production, at least in the short term. Failing that, agro-export cooperatives may have generated a new rural elite⁹⁴.

Whatever the specific mix of reasons for the FSLN's initial policy on expropriated land, it is striking that the leadership, normally so attuned to the political implications of economic decisions, viewed the land question in extremely economic terms, and tended to give little importance to the peasantry's demand for individual land ownership. The Sandinista preference for state farms was pursued to the extent of forcing cooperatives, formed by landless peasants who immediately prior to the triumph had seized farms belonging to Somocistas, to be turned over to the state (M. Ortega 1989, 207). Only several years later, when the contra war was at its height, did the government begin explicitly to use the distribution of land to individuals and cooperatives as a key means of weakening the contra's rural support.

In studying the speeches of the nine National Directorate members, I have found only one suggestion during the first year of the revolution that the political implications of the use of the expropriated land be examined carefully. In August 1979, National Directorate member Victor Tirado commented that "we should use this Somocista land so that when they invade they'll be met by a people united with its army" (B 12-08-79). In an apparent answer to Tirado's concerns, Jaime Wheelock proclaimed that "there is no

⁹³Wheelock elsewhere commented that "someone who is not sufficiently adapted as a farm worker, a farm wage earner, tends to seek a way to utilize his time better as a peasant than as a farm worker." This "deals us a harsh blow, creating a social and economic problem which may deal a harsh blow to the export economy" (JPRS 76378). One might say that the Sandinistas adopted the view of E.G. Wakefield, oft-cited by Marx (e.g. 1954, 719), that "where every one who so pleases can easily obtain a piece of land for himself, not only is labour very dear... but the difficulty is to obtain combined labour at any price."

⁹⁴The experience of Peru during the Velasco era would support this concern. Stepan notes that incomes of members of sugar cooperatives put them in the top quarter of the Peruvian population. Cooperative members sought to restrict membership, relying instead on part-time hired labour when their labour needs increased. Such part-time workers received only one-quarter the earnings of cooperative members (1978, 217ff).

danger of a counterrevolution" (B 14-09-79)⁹⁵. Years later, with the advantage of hindsight, Tomás Borge would term the failure to distribute the expropriated land to the peasantry one of the greatest mistakes of the FSLN's decade in power (FBIS 16-02-90).

E. Conclusion

The FSLN's initial approach to questions such as the agrarian reform, relations with the bourgeoisie, formation of the state sector, and price policy, was more than a pragmatic response to the needs of the moment. In each case, we find policy choices influenced by the drive for a state-dominant economy. The groundwork was being laid for a socialist economy: a significant share of economic activity was in state hands, and control of the economy's "commanding heights" was expected to yield control over non-state producers. The sphere of the market and competition was being reduced, both through market controls and through the monopolization of key economic activities (Table C.1).

Unfortunately for the Sandinistas, their project was fraught with dilemmas, dilemmas which have manifested themselves in other socialist experiences, dilemmas of which the leadership was only partly aware. These dilemmas would not be long in making themselves felt in the 1979-1981 period, to which we now turn.

⁹⁵This does not mean that the Directorate ignored the need to develop its political support in the countryside. We will see in the next chapter that agricultural credit for peasant production rose rapidly after 1979. The government also hoped that improved working conditions for rural wage workers and an improvement in social services would solidify rural support.

Chapter 5: Reconstruction and consolidation (1979-1981)

Upon coming to power on July 19, 1979, the FSLN was faced with the urgent and interrelated tasks of economic reconstruction and political consolidation. By the end of 1981, it was clear that the reconstruction had fallen short of its objectives. The process of political consolidation appeared more successful, in that the FSLN had firm control of the state. In retrospect, however, one can see that the Sandinistas' chances of establishing a thoroughgoing political hegemony had been seriously reduced, in that the organized bourgeoisie had moved into firm opposition¹. In addition, the state over which the FSLN appeared to have "firm control" was itself in turmoil. Finally, rural pressures were preparing the ground for an eventual reduction in the state's influence in the countryside.

Despite the difficulties facing the FSLN by late 1981, the period examined in this chapter would later look like the golden years of the revolution. These were the years of the revolution's greatest triumphs, the most notable of which was the literacy crusade, which taught hundreds of thousands of people basic literacy skills and gave thousands of urban youth their first contact with the Nicaraguan countryside. This was also a period of rapidly expanding health and education services, including vaccination drives that relied on mass mobilization and won praise from UNICEF.

This chapter will begin with a summary of macroeconomic performance during the period, including a summary of the economic impact of the insurrection. Subsequent sections will then focus on the four issue-areas of the thesis: the state sector, price policy, relations with the bourgeoisie, and agrarian reform.

Section B will examine the failure of MIPLAN's attempt to gain control over economic policy, the problem of "bureaucratism" and tensions in relations with state specialists. The section will also discuss the production-maximizing orientation of state

¹"Hegemony" is used here in one Gramscian sense, to denote a situation of "intellectual and moral unity," in which the values and interests of one social group are presented "not on a corporate but on a 'universal' plane" (1971, 181f). Thus, a situation of hegemony is one in which the values and interests of the dominant political group enjoy the status of being taken for granted among large segments of the population.

firms. Section C, on price policy, will examine the rise of unofficial-market phenomena in the 1979-1981 period, as well as the continuing contradictions in state price policy. Attention will also be paid to the drop in real prices for peasant products and in real salaries.

Section D will argue that the fundamental conflict between the bourgeoisie and the Sandinistas in the period was about power: what the bourgeoisie felt the government must do to guarantee the bourgeoisie's long-term interests was incompatible with what the FSLN felt it must do to consolidate its power and to lay the groundwork for change. The section will examine the frustration of the bourgeoisie's basic long-term objectives, and the FSLN's attempts to neutralize the bourgeoisie's political resources. Finally, Section E will focus on the 1981 agrarian reform law, and the Sandinistas' continued rejection of a small-holder-oriented agrarian reform.

A. Summary of macroeconomic performance

The next four chapters will begin with a broad evaluation of economic performance through successive time periods. The state of the "three balances"² discussed in the previous chapter will be tracked. The Gross Domestic Product (GDP) and GDP per capita will also be used as a central indicator of overall economic performance. There are various problems with the GDP and similar economic indicators, which are discussed in the appendix.

1. Effects of the insurrection

GDP fell 32.2% in 1978-1979³. GDP per capita dropped 35.8%, returning to its

²The 1980 economic plan focused on the "fiscal-financial," external, and "macro" supply-demand balances. For ease of presentation, fiscal and financial questions will be discussed separately, since Sandinista policy generated significant non-fiscal sources of monetary expansion. Hence, the macroeconomic overviews will track external, fiscal, and monetary/inflation performance.

³These figures understate somewhat the impact of the insurrection upon national output. Much of the 1979 cotton planting season was lost due to the fighting in mid-1979 and the chaotic situation afterward. The consequences of this were registered only in the

early 1960s level (Table A.1). Gross fixed investment dropped 77% (ECLA 1980). Had this been the only effect of the insurrection, Nicaragua should have enjoyed a period of "easy" GDP growth in the early 1980s, as capacity left idle in the 1978-1979 period was reactivated. But some productive capacity had been lost. It is estimated, for example, that Somoza's bombing of Managua in the last weeks of his reign destroyed 10% of Nicaragua's industrial capacity⁴. The national beef herd was reduced by between 4% (ECLA 1979, 34) and 23% (PP July 1984), as ranchers slaughtered their herd *en masse* as a reaction to the imminent FSLN victory⁵, or engaged in ambulatory decapitalization, walking their herds across the border into Honduras⁶.

Finally, the uncertainty associated with the insurrectionary period led to a significant flight of capital, estimated at \$535 million from the beginning of 1978 to mid-1979 (ECLA 1979, 14). A drop in Nicaragua's gross international reserves was combined with an increase in short-term liabilities, as the country failed to pay principal and interest payments falling due.

2. 1980-1981 Macro Performance

Early evaluations of the 1980-1981 period were confused by erroneous GDP data produced by MIPLAN. Official growth figures for the period were revised downwards in 1985. Initially, it was believed that GDP had grown by 10% in 1980, and 8.5% in 1981⁷.

1980 GDP: 1980 cotton output was just 27% of its 1978 level (ECLAC 1982).

⁴This figure is reported in ECLA (1979, 36). The ECLA document notes, however, that in estimating the costs of war, it relied on the estimates of others, and "No attempt is being made here to vouch that these estimates are exact" (Ibid., 17).

⁵A foreign reporter who had lived on the Atlantic Coast during the insurrectionary period told me that in early 1979 trucks would line up at the local slaughterhouse for up to two days.

⁶It is alleged that Honduras and Costa Rica enjoyed increases in their national herds of 300,000 and 200,000 head, respectively, during the 1977-1978 period (B 09-12-86).

⁷Some sources are even more generous in estimating 1980-1981 growth: World Bank (1983) asserts that combined 1980-1981 Nicaraguan GDP growth was 76.4%!

The revised figures were 4.6% and 5.4%, respectively (Table C.2)⁸.

Compared to the planned rate of growth, these were disappointing results. The 1980 and 1981 economic plans had called for a total GDP growth of 45% for the biennium. Such growth would have returned GDP to 98% of its 1977 level. Instead, 1981 GDP was just under three-quarters of the 1977 level (Table A.1)⁹.

At a more disaggregated level, the results were perhaps even more disturbing. For example, Plan 80 had identified "priority" areas for the industrial sector¹⁰. Gross output for these sectors was to rise by 21% in 1980, while growth for non-priority sectors would be limited to under 1%. In fact, 1980 growth in the "non-priority" sectors of industry was over three times greater than in the priority sectors (Table C.3)¹¹. Thus, the initial pattern of reactivation increased the importance of non-essential consumer goods in the industrial sector, a pattern quite the reverse of that which the government intended¹².

External Performance. It was noted in the previous chapter that the 1980 economic plan stressed the importance of external balance, lest the long-term independence of the revolutionary process be compromised. The plan's stated objective of limiting the extent of the trade deficit in 1980, and eliminating it thereafter, quickly ran

⁸Particularly striking is the degree of error in estimating growth in areas totally under state control. Note for example the errors in the estimation of 1980 and 1981 growth in the mining sector, as well as the error in the estimate of 1980 growth in government services.

Unfortunately, much micro-level revised data are not available. Thus, in certain cases inferences will have to be made on the basis of early data.

⁹GDP per capita grew 4% in the period, leaving it at two-thirds of its 1977 level. GDP per capita dropped 8% in the rest of Central America over the period. Latin America as a whole enjoyed a 1.3% increase.

¹⁰The ability of MIPLAN to "prioritize" should not be exaggerated: the "priority" sectors identified in MIPLAN (1980, 49) comprised 86% of 1979 industrial production (Table C.3).

¹¹43.6% of all industrial growth took place in two non-priority areas, tobacco and beverages, which in 1979 comprised just 11.3% of industrial production.

¹²Interestingly, the 1981 economic plan made no mention of this skewed pattern of industrial reactivation.

into difficulties owing to both exogenous and endogenous factors. As a result, the 1980 and 1981 trade deficits were 100% and 115% above their planned levels, respectively (Table C.4).

Part of the trade deficit reflected the evolution of terms of trade, which deteriorated 30% from 1977 to 1981 (Table A.2). But world price fluctuations combined with the Nicaraguan conjuncture in a singularly unfortunate manner. International coffee prices peaked in 1980, when Nicaragua had its smallest harvest in recent years. Prices stood at \$4.19 per kilogram in June 1980, only to fall to \$1.94 a year later, precisely as Nicaraguan production was recovering. Similarly, cotton prices rose substantially from 1978 on, but Nicaragua's cotton sector had been ravaged during the insurrection period. In 1981, for the first time in decades, the prices of all four of Nicaragua's main exports dropped (Mayorga 1986, 159).

The trade balance was also hurt by the loss of Central American markets during the insurrection period. Difficulties in reactivating industry efficiently made it difficult for industrial exporters to recover the ground they had lost. Thus, 1981 exports to the region were less than half their 1978 level. Imports from the region, however, actually increased (Table C.5). A decade later, Alejandro Martínez Cuenca, Minister for External Trade at the time, would comment that the contemptuous attitude of some FSLN leaders towards the CACM led to an abuse of the Central American Clearing House, the common market's mechanism for financing short-term intra-regional trade deficits (Martínez 1990, 94). Owing to both the perceived link between the common market and United States imperialism (see chapter 4), and the right-wing orientation of other governments in the region, many in the cabinet believed that revolutionary Nicaragua should not be linked with the "anachronistic" regimes of the isthmus, according to Martínez (Ibid., 77)¹³. By

¹³Martínez' book, like most memoirs, must be taken with a grain of salt. One Sandinista official told me that Martínez should have sub-titled the book "If only they had listened to me, everything would have worked out fine." Though Martínez suggests that he was a strong defender of the CACM against his more ideologically-minded colleagues in the revolution's early years, he in fact commented in 1980 that the common market was obsolete, and had become an obstacle to development (JPRS 75278).

this interpretation, the Nicaraguan government simply exhausted the Clearing House in the belief that the common market must soon collapse.

This belief turned out to be a self-fulfilling prophecy. Nicaragua's increased imports from the rest of the region gave a boost to the common market in the 1980-1981 period, but the tap was turned off in 1982, when it became increasingly clear that Nicaragua could not repay its debts to the region (Stahler-Sholk 1987, 164). For Bulmer-Thomas (1987, 242) "the failure of the Sandinista government to service this debt was one of the factors behind the decline of CACM after 1980."

Policy decisions with respect to domestic consumption also contributed to the trade deficits. These choices provide an indication of the slight degree to which MIPLAN's stress on external balance actually guided day-to-day government decisions. A significant share of the 1980-1981 trade deficit reflects the government's unwillingness to maintain the degree of consumption austerity necessary to preserve external balance. Two sub-sectors of external trade demonstrate this. On the one hand, consumer-goods imports (CIF) were allowed to exceed planned levels by a total of \$152 million in the biennium. At the same time, the maintenance of domestic beef consumption led to a total shortfall of \$52 million in beef exports during the period (Table C.6)¹⁴. Together, lowered beef exports and increased consumer-goods imports account for half of the difference between planned and actual trade deficits¹⁵.

The inherited external debt did not weigh heavily upon Nicaragua's balance of payments during this period. Nicaragua successfully renegotiated its debt with

¹⁴Thus, the volume of 1980 beef exports was 31% below its planned level, though total beef production was 99% of planned levels. In 1981, production fell below planned levels, but exports fell even faster: the share of exports in total beef production fell from 43% in 1980 to 27% in 1981 (Cabiasas 1986; MICE 1982).

¹⁵It is important to keep in mind that we are comparing the actual trade figures with their planned level, rather than with the previous year's data. The planned trade deficit was already substantially larger than the deficits of the 1970s, not to compare it to 1979, when there was in fact a trade surplus. So the plan already allowed for an increase in consumption goods imports, reflecting the government's sense of the political risks of an austerity programme. But the actual increase went well beyond this.

commercial banks, giving the country a moratorium until 1985 on all payments to the banks, excepting past due interest (Weinert 1981). The weight of those interest payments was compensated several times over by new credit from non-commercial sources. Official figures indicate that the country received \$260 million in external donations from July 1979 to the end of 1981, and \$1,300 million in loans (PP July-August 1983)¹⁶.

Fiscal Performance. Fiscal deficits in 1980 and 1981 hovered around 10% of GDP (Table A.4). While these deficits were consistent with planned levels of 13.1% and 9.7%, respectively, they did indicate a trend in the fiscal situation that would soon become problematic. From 1970 to 1977, deficits had averaged just 4% of GDP. The jump to the 10% level occurred though the tax burden had nearly doubled, from a 1970-77 average of 10.2%, to 18.7% in 1980-1981¹⁷. Government officials were already questioning whether the tax burden could be raised much further¹⁸. Government spending, having averaged

¹⁶The same source identifies the origin of the loans, but not of the donations. Unlike later periods, the Soviet block was not the dominant source of loans from 1979-1981. Slightly over a third of the loans came from multilateral financial institutions, primarily the World Bank and the Interamerican Development Bank. Latin American countries, above all Mexico, were the greatest source of bilateral credit, loaning a total of \$311 million over the period. Socialist countries loaned \$213 million.

These loan figures are higher than those appearing in the balance of payments, and thus probably include undisbursed loans. Part of the loan figure also represents the renegotiation of Nicaragua's debt to non-commercial creditors.

It is important to note that Nicaragua's official figures on foreign aid do not include military aid. Thus, the large trade deficits recorded later in the decade (see chapters 6-8) are underestimated.

Government leaders repeatedly stated that Nicaragua had not paid "a single penny" for weapons (e.g. D. Ortega 1986a, 34). It would thus appear that military aid was donated rather than sold on credit.

¹⁷Mayorga (1986, 116) notes that an important factor in the improved tax performance was the cancelling of all income tax exemptions to industry. Thus, the "rules of the game" under which the industrial sector had operated since the early 1960s (see chapter four) were rapidly transformed. This change would appear to be another reflection of the leadership's low regard for the inherited industrial sector.

Bulmer-Thomas (1987, 246) argues that the improved tax performance came about "above all through improvements in administration, tax evasion having been such a noticeable feature of the pre-revolutionary period."

¹⁸Not surprisingly, COSEP protested the increased taxes. See, e.g., its statement in (LP 11-11-80).

16.6% of GDP in the 1970-77 period, represented 32% of GDP during the 1980-1981 period. Monetary emissions to cover the fiscal deficit became substantial: while internal financing of the deficit had averaged 0.4% of GDP in the 1970-77 period (BCN 1979), by 1981 it had reached 8% (ECLAC 1983), and was rising.

Even in 1980, concerns over the deficit level led to attempts to restrain spending in areas outside health and education (B 26-09-80). The 1981 budget law implemented stricter controls over changes in budget line items, and tried to implement a hiring freeze (Decree 607). The state of emergency announced in September 1981 (see below) was in part aimed at containing the deficit.

Monetary performance and inflation. The fiscal deficit and an expansive credit policy helped maintain a high rate of liquidity in the economy. The ratio of money to GDP averaged 22.2% over the biennium, down slightly from 24.2% in 1979, but well above its 1970-77 average of 12.6% (Table A.5).

Though the liquidity level was steady, underlying conditions were being created for a sharp rise in that level, which would soon manifest itself. Credit policy was not merely expansive, but departed sharply from traditional financial principles. Large sums of credit were extended to the peasantry, for reasons that were essentially political. Credit policy was thus a key expression of an "alliance-building" as opposed to "accumulationist" orientation. Only one-quarter of this credit would be repaid (Enriquez and Spalding 1987, 117), and the credit was not translated into increased basic grains production. A precedent had been set, however, and the view became wide-spread that the government had an obligation to extend low-cost credit to the peasantry.

Finally, December to December inflation, as registered by the unreliable CPI, dropped from 70% in 1979 to just 23% in 1981. This drop reflected in part price-control policies that created a situation of "repressed inflation."

B. Organization of the state sector

1. The frustrations of MIPLAN

Though the Ministry of Planning's 1981 economic plan¹⁹ spoke triumphantly of the Nicaraguan state having "converted itself into the expression of the popular will" (1981a, 173), MIPLAN's fundamental view throughout this period was that the state was a chaotic beast riven by "institutional feudalism," and characterized by "incoherence, disorganization, lack of discipline, etc." (MIPLAN 1981b). In other words, MIPLAN officials were frustrated by their inability to establish control over the state.

The "Programmatic Coordinating Commissions," which the 1980 economic plan had termed "the principal instrument to control the implementation of the plan" (MIPLAN 1980, 36), and which sought to guarantee each executing ministry's commitment to the central plan (above, chapter 4), "never quite got off the ground," in the words of one observer (Ruccio 1987, 70). A May 1980 analysis in *Barricada* noted that state ministers were resisting the commissions, arguing that ministries should be responsible only to the government junta (B 17-05-80). The National Directorate, acting through the junta, could have ordered ministers to participate fully in the coordinating commissions. But as was noted in the previous chapter, the Directorate was united in its support of planning in theory, but divided on the status of MIPLAN.

The 1981 economic plan repeated MIPLAN's call for "a process of [state] centralization in order to strengthen the unified direction of the economy" (MIPLAN 1981a, 18). More specifically, the plan made a bid to supplant competing ministries in seeking external cooperation, assigning foreign exchange, and authorizing investment (Ibid., 130). Yet, as had happened the previous year, many of the crucial policies of the 1981 plan were simply ignored. One recommendation of particular interest, because it illustrates the tension between Ruiz' MIPLAN and Wheelock's MIDINRA, concerned

¹⁹While the 1980 plan was entitled "Programme of economic reactivation for the benefit of the people," the 1981 plan was more soberly called the "Economic programme for austerity and efficiency," symbolizing the FSLN's changing perception of the economic situation.

credit policy. The 1981 plan insisted that the 1980 policy of giving producers 100% financing of their working and investment capital requirements had been a transitional policy reflecting an "exceptional" situation (Ibid., 40). The plan called for no more than 64% financing of working and investment capital in 1981, and warned sternly that "In no case will 100% of the working capital needed for a production programme be financed" (Ibid., 144).

The recommendation was a sensible one, and well within the capacity of the government to implement, but it was not followed. The call for financial prudence -- which was also a call to remember the objective of state accumulation -- clashed with the "productionist" emphasis of MIDINRA (see below), which felt itself immediately responsible for maximizing agricultural production. The problem of state dis-accumulation through credit policies would not really be addressed until mid-1988²⁰.

The unpublished summary of an internal seminar held in MIPLAN in November 1981 (MIPLAN 1981b) indicates both the frustrations and the aspirations of MIPLAN officials at this time. The document criticizes the lack of organization in the state, and is highly critical of the lack of coordination of public sector productive activities²¹. Making yet another bid for control within the state, and over the economy in general, the ministry called for the "legalization and making obligatory of the economic plans," and the development of a system of "rewards and punishments" that would force all economic sectors to respond to the plan (Ibid.).

Events, however, were moving in exactly the opposite direction. MIPLAN's 1982 plan was not approved by the National Directorate (Cabiezas 1986), and was never published. Subsequent plans, though approved, were also not published, giving MIPLAN

²⁰A similar tension between the "financial" and the "productionist" approaches arose around the performance of the state sector (APP) firms. See below.

²¹MIPLAN officials noted that "the capacity of the APP for economic leadership and accumulation has been neglected," and lamented that "the various companies continue to operate autonomously." The problem was most pronounced, they alleged, in the enterprises of MIDINRA (Ibid.)

an increasingly low profile within the state, until it was abolished in 1985. MIPLAN's successor, the Secretariat for Planning and Budgeting, would be given a more modest role from the outset (see chapter 7, below). The National Directorate had apparently decided it would have to live with a "poly-cephalic" state²².

It is not at all clear what would have happened had MIPLAN's bid for control been successful. The call for obligatory plans represented a striking lack of realism: MIPLAN clearly did not have the information base needed to devise a viable plan, and it was doubtful whether such a base could ever be developed²³. It is probable that making plans obligatory would have generated so many evasion tactics among economic actors, including those within the state, that it would have simply cast a heavy "veil" over the economy, rendering it opaque to central planners.

The call for obligatory planning also had to take into account the strong and unpredictable impact of exogenous factors such as international commodity prices upon the Nicaraguan economy. But to this problem the MIPLAN seminar offered what it felt was a viable solution, a solution that reveals much of the unspoken assumptions of MIPLAN officials: "an increasing integration of the Nicaraguan economy with the centrally planned socialist economies," the seminar participants argued, would allow the planning of export prices and volumes (MIPLAN 1981b).

²²Any discussion of the reasons for this decision must be highly speculative. One plausible reason is that the Directorate members placed a high value on maintaining unity, and may have felt that the subordination of MIDINRA to MIPLAN would create serious tensions. Another, discussed in the next chapter, is that MIDINRA's vision of how Nicaragua should be transformed seemed more viable than that of MIPLAN.

²³Forrest Colburn's (1990) study of agricultural state enterprises provides a graphic picture of the irrelevance of the planning process to state managers. Enterprise managers, he writes, generally ignored requests for statistical information and refused to submit "required" statistical statements. It is unlikely that most firms had the necessary literacy and numeracy skills to provide central government offices with all the information they requested. Colburn notes that MIDINRA "required" its firms to submit a plethora of statistical statements: "one daily, six monthly, sixteen quarterly, and one annually" (1990, 48).

MIPLAN officials recognized the problem. The November 1981 seminar concluded that the "National information system... does not exist in practice," and complained that "Information arrives late, and it is unreliable and even contradictory."

If MIPLAN's call for obligatory planning reveals a certain loss of realism with respect to the country's economic situation, there were other signs of involution. Union leaders, including those from the Sandinista Workers' Central, criticized MIPLAN for having failed to consult mass organizations while preparing the plan, as had been done for Plan 80 (B 10-12-80)²⁴. One foreign observer would later comment that those at MIPLAN were obsessed with drawing up material balances, and thought that any other approach to the economy was "IMF-ish"²⁵.

2. "Bureaucratism"

By late 1980, FSLN leaders were expressing great concern over the growth of the state bureaucracy and the ills of "bureaucratism." Central government employment had risen from 26,000 in 1977 to 52,000 in 1981 (OEDEC 1977, 23; INEC 1985)²⁶. Thus, an economy that had shrunk by a quarter was supporting a bureaucracy that had doubled in size. Part of this increase reflected the growth of state social services such as health and education²⁷. But a portion was also a symptom of the desire of some Sandinista leaders to expand their "turf" within the state. It was noted in the previous chapter that Wheelock's "proletarian" tendency controlled only MIDINRA. Wheelock responded by turning MIDINRA into an empire: while most ministries made do with one or two vice-ministers, MIDINRA had five. By 1986, MIDINRA had 4,243 employees on its payroll. By way of

²⁴Some of the planners appear to have felt that their grasp of theory absolved them from the need to discuss the plan with others: Plan 81 declared itself "nothing but the scientific expression of the historic aspirations of the Nicaraguan people for this phase of the Popular Sandinista Revolution" (MIPLAN 1981a, 15).

²⁵Roberto Pizarro, cited in Martínez Cuenca (1990, 110).

²⁶These figures include the central bureaucracy only, and exclude employment in state enterprises. Despite repeated attempts to freeze government employment, the bureaucracy would continue to grow, reaching 77,000 in 1986-87 (SPP data). Defence and Interior Ministry personnel are omitted from these figures. In a mid-1988 speech, Daniel Ortega (1988c) indicated that there were 130,000 permanent positions in the two armed ministries.

²⁷On the basis of OEDEC (1977) and INEC (1984), it would appear that there was an increase of some 9,000 positions, approximately 50%, in state health and education personnel between 1977 and 1981.

3

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comparison, this is twelve times the payroll of the Ministry of Industry (SPP data).

The National Directorate's Bayardo Arce complained in late 1980 that "A new disease has emerged, 'assistants-ism'. Everybody now has assistants." (rpt. Arce 1986, 44).

In a speech to Sandinista Workers' Central leaders, Henry Ruiz commented that

You have said that we have a bureaucratic state, and I want to tell you that you are right, we have a state that is pompous and heavy, but it wasn't made this way on purpose. When we took power, everything was undone, and we had to organize the revolutionary State in any way possible. And what we finally did was fill the ministries, give everyone jobs there, *because at the time the fundamental goal was to create jobs for the people* (Ruiz 1981; emphasis added).

But as was noted above, there were concerns not merely that the state had grown, but that it was hopelessly inefficient. Concerns were expressed over "sectorialism," defined as a focus on the specific tasks of one's institution, leading to a loss of the "big picture" (B 07-06-80). This was linked to the oft-condemned "what-has-that-got-to-do-with-me-ism"²⁸. Concerns over bureaucratic inefficiency led to what might be called "exceptionalism," allowing specific institutions to bypass the control structures that were being developed²⁹.

To a large degree, the FSLN's anti-bureaucratism rhetoric reflected contradictions in its own vision: it wanted the state to do much more than it had traditionally done, yet it did not want state growth. It wanted an economy organized along essentially bureaucratic lines, yet without "bureaucratism." This ill was never clearly defined, and the FSLN critique reflected in part the romantic illusion that activity in the state, as elsewhere, should be "directly social": the bureaucrat should know, without being told, how to harmonize her particular tasks with those of the revolution as a whole. The "big picture" should be self-evident to everyone. A less idealistic view would recognize that no work can get done without a large measure of "sectorialism," and that it is up to the upper levels

²⁸"Yoquepierdisimo," one of many "isms" coined to describe behaviour within the new state.

²⁹Thus, for example, the International Fund for Reconstruction was set up to channel all foreign aid, but organizers of the 1980 literacy crusade were allowed to ignore this mechanism (Decree 308).

of the state administration to ensure that the particular focuses of workers in various institutions combine to generate harmonious results. While "sectorialism" within the new state may have become excessive, this was in part an expression of the National Directorate's own inability to resolve its internal contradictions.

It should also be noted that the language of anti-bureaucratism was also used as a rhetorical weapon to evade control mechanisms. Colburn (1990) notes that APP managers routinely accused bank officials of being "bureaucratic" for insisting upon financial responsibility. In a situation in which fundamental dilemmas such as the contradiction between production maximization and accumulation were not confronted, one person's attempt to fulfil her duties was another person's "bureaucratism"³⁰.

Interestingly, Sandinista leaders at times linked bureaucratism with popular input into decision-making. Bayardo Arce commented that

Popular participation can lead to bureaucratism. For example, if a company's production plan has to be discussed at various levels, there is the danger that the plan will lose applicability, because it has to go through various filters and discussions which can eventually translate into restrictions on the plans (H. Ortega et al 1986, 167)³¹.

Sandinista concerns over bureaucratism influenced the relation with state specialists. The previous chapter noted the dilemma created for revolutionaries by their

³⁰Some observers have glossed over the problem of conflicting objectives in the Nicaraguan state. Thus, Saulniers (1987, 113) comments of state firms that: The single overall objective of running the public enterprises for the betterment of Nicaragua's people was global and amply communicated. Although there have been, and will continue to be, sharp differences over the interpretation of that objective, the ambiguities about objectives that give rise elsewhere to misunderstandings and misinterpretations of the management environment were missing in Nicaragua.

But it is doubtful whether individual bureaucrats should be expected to know how to "operationalize" the goal of "the betterment of Nicaragua's people" in their specific institutions.

³¹Arce went on to complain that often the plan is submitted to discussion with *compañeros* who do not have an adequate level of training or preparation needed to be able to make a real contribution to the discussion. Victor Tirado also related popular participation and bureaucratism. Asked in a 1988 interview how often union leaders consulted with their rank and file, Tirado answered "As much as necessary." "Of course," he added, "consulting on everything would run the risk of bureaucratism" (1988).

dependence upon specialists of questionable political reliability. Following a time-honoured tradition of attributing current problems to the residual effects of the *ancien régime*, Sandinista officials often suggested that problems of bureaucratism reflected the presence of old specialists and old values in the new state. Thus Henry Ruiz criticized those state workers who sought to "maintain the separation, the class differentials, because they have a specialized training" (1980). In a comment typical of the time, one official condemned state workers "who have not wanted to understand that a revolution has occurred in this country" (LP 09-04-80).

A decade later, one high-ranking specialist would comment that "in the beginning, everyone who was not a guerrilla, who had not participated directly in military actions, was considered a bourgeois" (Martínez Cuenca 1990, 66f). Non-Sandinista specialists watched with concern the formation of FSLN cells in state offices, and the increasing frequency of political meetings³². Increasing tensions with the bourgeoisie led to heightened Sandinista suspicion of those considered to be the bourgeoisie's real or potential allies within the state (Ibid., 101)³³.

Tensions with state specialists were heightened by the salary question. Though the 1979 budget law had oriented the Ministries of Planning and Finance to devise a salary policy that would "retain within the state an adequate supply of qualified human resources" (Decree 130), the view that prevailed advocated a narrow salary "fan" between low-level and upper-level personnel. This led to a ceiling on state salaries that made it hard to compete with the private sector for specialists, and "led to an important exodus of

³²One, and only one, member of the National Directorate, criticized this aspect of the new state. The increasingly technocratic Wheelock criticized the growth of political activities within the state apparatus, condemning the "ideologists" with their "revolutionoid posturing" who always wanted to hold political meetings in his ministry (rpt. Wheelock 1986a, 61). Other FSLN leaders considered such political activities essential to the development of politically-reliable experts.

³³For an account of life in the new state by an opponent of the FSLN, see Alaniz (1985, 67ff).

professionals" (Martínez Cuenca 1990, 59)³⁴. Though FSLN leaders would later admit that this policy had been costly (Borge 1984b, 152), the standard response to the problem in the early years was to exhort state specialists to be less selfish. Thus, the 1981 economic plan states that

Three-quarters of our country's labour force earns salaries under C\$2,000. For this reason the salaries of our specialists will be in accordance with the possibilities of our economy and will not be augmented substantially. This will put to the test their consciousness and patriotism (MIPLAN 1981a, 178).

Though the policy was costly, it is not clear that there existed an unambiguously superior alternative: offering specialists high salaries at a time when salaries in general were being compressed would have been politically costly, and would also have created tensions with the government's policy of constraining luxury-goods imports, as suggested in chapter four.

3. State enterprise behaviour

State firms during 1980-1981 and after were generally motivated by a "productionist" rather than an "accumulationist" philosophy. This is attested to by both the inability of many of these firms to repay bank credit, and their very lack of concern to do so. Colburn (1990, 45) notes that, at the end of the first agricultural season, state enterprises under the control of MIDINRA "repaid much less than half of the credit they had been extended by the bank"³⁵. Colburn's study of state farms also indicates a general

³⁴Henry Ruiz recognized the problem of the exodus of specialists, but suggested it was owing to "their petty bourgeois sensibility, since the workers no longer call them 'sir,' and question them." Nevertheless, Ruiz argued, it was important to keep specialists in Nicaragua, since "a whole generation must pass before we have specialists with a new mentality" (B 11-09-81). Once again, one sees the hope that the revolution could create specialists made in its own image.

³⁵Thus, it was not merely the peasantry that was turning out to be a bad credit risk. Biondi-Morra (1988, 32) notes that a 1981 MIDINRA study "indicated that out of 49 enterprises for which updated financial statements existed, 38 were operating at a loss."

lack of interest in financial questions and cost control³⁶. My own visits to state farms in the mid-1980s suggested a similar lack of concern: in one case, I found green garbage bags packed full of receipts in the corner of a storage room.

State managers could defend their firms' poor financial performance by citing the wide range of demands being placed upon them by their responsible ministries. In the countryside, it appears that state farms were operating as employers of last resort. Colburn (1989, 181) notes that employment on state farms increased 25% within two years of confiscation.

The 1981 economic plan insisted that the productionist orientation of state firms be harmonized with a concern for financial rigour³⁷. The plan criticized the "lack of financial discipline in the APP" (MIPLAN 1981a, 164). In an interesting comment, it noted that state firms should show a profit, not merely to generate a surplus in the state sector, but to provide "a basic parameter for the evaluation of their administration" (Ibid.,

³⁶For advocates of the accumulationist approach, Colburn's study paints a grim picture indeed. He writes of one accountant who answered requests for cost information with an impatient "I am not a magician" (1990, 63). Another enterprise ran up debts of C\$99 million, though no one could explain how the debt had been accumulated (Ibid., 87). An official at another farm stated that no control was maintained over inventory, because no one at MIDINRA ever asked for inventory reports (Ibid., 67). Biondi-Morra (1988, 277) cites a manager who argued that "we were so short of administrative personnel that we had to make choices. It was better for us to plant one acre of rice without keeping a record of it, than to write on a piece of paper that no acre was planted."

³⁷In a late 1980 speech to bank workers, MIPLAN's Henry Ruiz argued that such a synthesis would require unified planning. He commented that, in 1980 there was a certain desire to negate bank mechanisms, a desire to manage bank credit freely. In the past, if a credit represented a risk to the bank, the bank did not lend. Now credit has another meaning, that of developing the economic projects of the Revolution... But it is one thing to have changed the philosophy of credit, and another to abandon the mechanisms of bank control. No one can simply do as they wish, be they in the fiscal-financial, productive, or marketing spheres. Thus, the conception of unified planning is a doctrinal principle of this economy. (1980).

68)³⁸.

Yet there was an ambiguity in the economic plan's position on the accumulation question, an ambiguity that would haunt state firms for years to come. All APP firms should be profitable, the plan declared, but this profit should come through efficiency, not through price increases (Ibid., 175). The intention, obviously, was to avoid having state firms take advantage of quasi-monopolistic positions. But the rejection of profits through price increases failed to address the question of how prices should evolve in an inflationary situation. In practice, state-sector prices were allowed to lag behind those of the private sector, which provided a great opening for speculators, and increasingly pushed state firms away from an accumulationist orientation³⁹.

The 1981 plan's stress on profitability and financial control was also undermined by credit practice. As Kaimowitz (1989, 62) notes,

Faced with the choice between allowing state firms to go bankrupt or giving them more loans, the government chose the latter course, which led to the virtual disappearance of incentives to reduce costs.

Thus, in the early 1980s state firms were subjected neither to centralized financial control, nor to the discipline of the market. To a large extent, the old had died, the new had not been born, and there were increasing doubts whether it ever would be.

C. Price Policy

As was noted in the previous chapter, the young FSLN government took various steps to control prices, yet was hesitant to confront the tensions inherent in that policy. This pattern continued through the 1980-1981 period.

A number of additional measures were implemented in early 1980. Decree 216

³⁸This remark echoes the Soviet debate on accounting. E.H.Carr notes that, in 1919, Soviet defenders of monetary accounting "were placed more and more on the defensive." One advocate of accounting, V. Milyutin, argued that strict control over transactions, even those within the state sector, was essential in order to ensure "the possibility of judging whether an enterprise is developing or falling behind, for what reasons, where the trouble lies, what needs remedying" (cited in Carr 1966, 267).

³⁹This point will be examined further in the next chapter.

sought to "make effective the right to housing" by imposing a 40%-50% cut in housing rents. Decree 323, the first Consumer Protection Law, gave the Ministry of Internal Trade (MICOIN) the right to "fix or freeze" the prices of all products "indispensable for popular consumption," and of all intermediate goods used in the making of such products⁴⁰. The decree also established an "Advisory Council for Consumer Protection," whose composition indicated the political complexity of price controls: the Council was to include representatives from five ministries, the police, the Chamber of Commerce, small merchants, and two delegates from popular organizations to represent consumers.

These and other measures reflected the FSLN's belief that essential goods should be made affordable for the entire population. A corollary of this belief was the rejection of the price mechanism to channel consumption. Thus, for example, though the high consumption of beef and other exportables during the biennium lowered Nicaragua's exports (see above), the government limited itself to exhorting "housewives" to be "moderate" in their use of such products (LP 15-03-80). Advertisements were taken out explaining to consumers how much Nicaragua earned from each pound of exported sugar and calling for a reduction in local sugar consumption (B 20-01-81), but domestic sugar prices remained low. The government felt that the alternatives to such moral suasion were unpalatable: higher prices would hurt poor consumers the most; substantial income redistribution, even supposing it to be feasible, would threaten the FSLN's political consolidation. To reduce consumption of exportables through rationing was also thought to have negative psychological and political consequences. Hence, moral suasion reflected in part the unwillingness at this stage to take firmer measures.

Nevertheless, direct state provisioning of goods and quasi-rationing were being tested. In late January 1980, Decree 264 mandated, on an "emergency" basis, the establishment of special stores in all workplaces with more than thirty employees. The

⁴⁰The decree also made MICOIN responsible for "ensuring an adequate supply of such goods," though the ministry was given no powers that would have allowed it to fulfil this responsibility.

stores would sell basic products, in quantities that depended upon the number of the worker's dependents, at official prices⁴¹.

In a situation in which the state sold products below market-clearing prices, yet did not impose rationing, unofficial-market phenomena were not slow to appear. A Managua radio station complained in late 1979 that "Black market speculation with dollars is reaching an unbearable level" (JPRS 74726). La Prensa published a picture in early January 1980 of people lined up in front of a state supermarket to buy "articles in high demand that they will resell" (LP 05-01-80). It was estimated that a 50% spread had already opened between official and unofficial market prices (LP 09-02-80). These phenomena appeared despite widespread application of the Consumer Protection Law: La Prensa reported in March 1980 that 1,000 merchants had been fined under the law (LP 14-03-80)⁴².

In a pattern that would hold throughout the 1980s, FSLN leaders attributed phenomena which were a predictable by-product of their own policies to sinister political machinations or psychological pathologies. Bayardo Arce complained of the "psychosis of scarcity" that was leading people to hoard products (LP 18-01-80), and Barricada hinted darkly at an "artificial shortage created by counterrevolutionary groups" (B 12-04-80).

State sales at below-market-clearing prices represented an implicit rejection of an accumulationist strategy. In fact, the state's involvement in distribution was leading to

⁴¹Included were sugar, rice, beans, maize, salt, laundry soap, cooking oil, eggs, and "any other product that might subsequently be added." The fluctuations in this list throughout the 1980s, as state channels gained and lost control over the distribution of various products, provide a window on the condition of at least one aspect of the non-market economy. Similarly, the ongoing shifts of the "secure channels" from workplace to neighbourhood and back again reflect the FSLN's attempts to meet political challenges from various quarters. These points will be examined in subsequent chapters.

⁴²The law, conflicts with ENABAS, and the anti-speculation rhetoric of the FSLN leadership led private merchants to hold a rally in Managua, replete with banners declaring "We are not exploiters," "We want freedom of trade," and "We want to be free, in a free country" (LP 10-03-80). The sprawling Eastern Market, where many private merchants were concentrated, became a centre of anti-Sandinista sentiment, and was quite impervious to government attempts at control. A MICOIN official told me in 1983 that price inspectors were refusing to enter the market after one of their colleagues was murdered there.

dis-accumulation: in 1980, the government spent C\$480 million, over 10% of its total income, on general subsidies (B 02-01-81). One observer notes that this came about despite the absence of an explicit subsidy policy. Rather, there were "two conflicting and poorly coordinated price-setting mechanisms, each largely under the control of a different ministry" (Saulniers 1987, 115). Thus, state subsidies were the resultant of decisions on producer prices made by the ministries of agriculture or industry, and decisions on consumer prices made by MICOIN. On the other hand, state policies were providing private traders with "speculative profits" which one estimate put at C\$1.5 billion for 1980 (Ramírez 1987, 192)⁴³. An article presented to a national congress of social scientists in 1981 warned that state policies were transferring accumulation from the state to the private sector (Vargas 1981)⁴⁴.

As did the 1980 economic plan, Plan 81 indicated that the government was not ready to confront these contradictions. Prices should not outstrip salaries, the plan held (MIPLAN 1981a, 73), and should be cost-based (Ibid., 84). Though the main goal of state domestic marketing should be the "defence of real salaries" (Ibid., 73), the plan rejected state subsidies as a means to this goal, insisting that the ENABAS subsidies were a "strictly temporary measure" (Ibid., 83). In practice, however, these subsidies would prove anything but temporary. As had the Consumer Protection Law, Plan 81 insisted that a wide variety of institutions be involved in price setting (Ibid., 40). This desire to consult all affected parties would contribute to the paralysis of official price policy during the inflationary years to come⁴⁵.

The plan argued that much inflation in 1980 was due to "indiscriminate" price

⁴³This is the equivalent of 30% of government revenue at the time.

⁴⁴This warning echoed those issued in the USSR during the NEP period (Carr 1958, 424). In fact, the author of the Nicaraguan analysis, Oscar René Vargas, recognized his debt to Preobrazhensky's analysis.

⁴⁵Biondi-Morra (1988, 235) cites a state milk plant manager who describes the long process for approving new prices. The manager complained that "The last time we made a price proposal, it took more than six months to get it approved. By then, the new price was inadequate due to its erosion by inflation."

increases on the part of the private sector (MIPLAN 1981a, 81f). Yet this observation did not lead to any questioning of the very possibility of effective price controls in the face of private sector behaviour. Rather, the plan limited itself to moral suasion, calling upon the private sector to avoid "irrational" price increases (Ibid., 177), and pleading for the bourgeoisie to impose austerity upon itself in the name of "National Unity" (Ibid., 26).

Peasant prices. The desire to counter unofficial-market phenomena while maintaining low official prices for basic products led to an ongoing concern to strengthen "secure channels" through which goods could reach consumers, such as the workplace stores and state supermarkets. It was relatively easy to extend these secure channels right back to the producers, in the case of manufactured consumer goods. For goods produced essentially in the peasant sector, such as beans and maize, it was rather more difficult. Here the state channels would have to be established in competition with long-existing channels running from isolated peasant producers to private urban markets.

The task of creating secure channels running from peasant producers to urban consumers was assigned to the Nicaraguan Basic Foods Company (ENABAS). Though some observers have argued that ENABAS had a fundamental mandate to improve terms of trade for peasant producers, its actual practice was essentially consumer-oriented⁴⁶.

⁴⁶Collins, for example, claims that a fundamental objective of ENABAS was to force private merchants to pay peasants higher prices, but notes two pages later that prices offered by private traders in 1980 were over two times higher than the ENABAS price (1982, 122ff). Similarly, Frankel claims that one of "the major objectives of food pricing policy" was to improve peasant terms of trade, yet allows that "prices set for corn and other peasant products were unable to keep pace with rising rural consumer prices" (1987, 211; see also Utting 1987, 133). The language here obfuscates: one could almost forget that the prices which were "unable to keep pace" were prices set by the government, which had it fully within its power to improve peasant terms of trade had this really been a "major objective" of policy.

A *Barricada* article on ENABAS clearly articulated its consumer orientation. ENABAS, the article proclaimed, was set up and operates with a single goal in mind: to guarantee our liberated people a just supply of basic commodities, free from usury and speculation, free from a so-called 'supply and demand' (B 16-04-80; rpt. JPRS 75714).

Some opponents of the FSLN feel that the objective of the secure channels was neither consumer- nor producer-oriented. Shirley Christian argues that the FSLN had simply learned from the Allende experience that the opposition should be given no chance

This is indicated by the fact that ENABAS prices quickly fell behind those paid by private traders⁴⁷. The government responded by seeking to control private traders, and by subjecting peasants to pressures to sell only to ENABAS⁴⁸. The peasantry deeply resented these pressures⁴⁹. Apart from the lower prices paid by ENABAS, peasants complained that the state organization, unlike private traders, failed to supply goods which the peasants could purchase with the receipts from their grain sales⁵⁰. To compound the

of controlling food supplies (1985, 237).

⁴⁷Official prices also lagged behind the general price level. Bearing in mind the weaknesses of the CPI, by the end of 1981, deflated producer prices for beans and maize were 14% and 39% lower, respectively, than their 1977 levels (Table C.7).

Kaimowitz (1989, 58) offers the interesting hypothesis that the low prices paid by ENABAS to producers reflected, not just consumer interests, but the goal of preserving a labour supply for the agro-export harvests by limiting peasant income from food sales.

⁴⁸There are many references to the pressure placed on peasants to deliver grain to ENABAS. Internal Trade Minister Ramón Cabrales would later comment that

One of the most notable mistakes of this period was the fact that we were forcing peasants to sell us their production every agricultural cycle, at prices set officially and in a coercive manner (1987, 42; see also Wheelock 1983, 117).

Colburn (1989, 192) notes that "in some rural areas peasants caught selling their crops to private middlemen have their entire harvests seized without any compensation."

What is not entirely clear is whether such pressures on the peasantry reflected law, administrative regulation, or the initiatives of local officials. Kaimowitz (1989, 56) places responsibility on "local party officials" who engaged in "directly repressive actions." This interpretation was, not surprisingly, also advanced by Daniel Ortega, who would later comment that "the incorrect *application* of some measures" led to the government's "giving the counterrevolution a peasant social base" (B 17-06-88, emphasis added).

But if local officials who punished peasants for selling to private traders were not following specific instructions, their interpretation of government policy was certainly a reasonable one. ENABAS was clearly trying to establish itself as a monopsony, and, to this end, was seeking to eliminate private traders (Austin, Fox and Kruger 1985; Kaimowitz 1989, 56; Zalkin 1988b, 82). In addition, since the private grain network had to sell to consumers at higher-than-official prices in order to be able to pay peasants the prices it did, local officials could reasonably conclude that private trading was *ipso facto* an illegal activity, and treat it accordingly.

⁴⁹An irony of the situation is that other government policies had in fact attenuated pressures that had traditionally forced the peasantry to market grain. As Zalkin (1988b, 79f) points out, the government's easy credit policy, and the fact that the state banking system would not seize land as payment for delinquent loans, eliminated a mechanism that had traditionally fostered grain marketing.

⁵⁰A late 1980 meeting of peasants recommended that "the ENABAS purchasing centres be turned into multi-purpose centres where we can buy consumer goods, tools, inputs and other necessary products" (Conclusiones y acuerdos... 1980). The government would undertake to improve the rural supply network in the coming years, but in early 1985 government officials acknowledged that rural trade remained "disarticulated." See chapter

problem, ENABAS paid with cheques, which forced peasants to make their way to the closest bank, which might or might not have the funds on hand to provide them with cash (Baumeister 1989, 149)⁵¹.

The 1981 economic plan expressed a desire to turn terms of trade in favour of the countryside, a goal which may have been frustrated by bureaucratic politics. When different government agencies sat down to set prices, the interests of urban consumers were represented by the Ministry of Internal Trade, which argued for low consumer prices. The financial interests of the state were represented by the Ministry of Finance, which wanted to keep subsidies down. But no government body spoke forcefully for the peasantry⁵². As a result of this "bureaucratic imbalance," consumer prices were kept low, subsidies were kept in check, and official producer prices suffered. It would take some time before this imbalance was rectified, a rectification aimed in part at reducing the contra's popularity among the peasantry.

Salaries. The previous chapter noted that the 1980 economic plan rejected the option of a liberal salary policy. In the 1980-81 period, deflated average salaries dropped 14%. By the end of 1981, they were 27% below their 1977 level (Table C.8).

In late 1979, the FSLN leadership tried to reduce even the nominal earnings of workers, by attacking the "Thirteenth month" bonus. Traditionally, workers received a year-end bonus equal to one month's wages. At the beginning of November, Jaime Wheelock launched a campaign against the year-end bonus, calling it "a scandal" (B 01-11-79). With reports that the bonus would be suspended causing dismay among workers

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⁵¹The idea of paying isolated peasants with cheques demonstrates the problems generated by the interaction of the state-dominant economy and peasant production. Cheques were used, of course, to maintain controls on the individuals acting as state buyers. Private traders were free from this encumbrance.

⁵²With its growing influence, MIDINRA could have been a forceful advocate for the peasantry, had it been oriented towards the promotion of peasant production, which it was not.

whose real incomes had already been eroded, the FSLN retreated, saying that those earning low salaries would not be affected (B 08-11-79). In late November, Decree 179 put a cap of C\$1,500 on the year-end bonuses. The money saved by this measure was to be dedicated to a "Fund to Combat Unemployment." The C\$1,500 cap meant that at least half of salaried workers were not affected by the measure, but the FSLN also called on all workers to donate their bonus to the unemployment fund. Tomás Borge declared that it would be "repugnant" for workers not to do so (B 01-12-79). It appears that few workers were inclined to part with their bonuses, however, and observers see the whole Thirteenth Month campaign as the first of many excesses of voluntarism in Sandinista salary policy. In late 1980, the National Directorate officially withdrew its call upon workers to donate their year-end bonuses (B 06-12-80).

The FSLN's salary austerity policy created an obvious opening for non-FSLN unions. On February 7, 1980, the Communist Party's union federation, CAUS, launched strikes involving 1,700 workers in nineteen factories, demanding a 100% wage increase (LP 09-02-80). The National Directorate saw the strikes as a direct political challenge. "It is not coincidental," Bayardo Arce declared, that CAUS had called the strike while the "C.I.A." was trying to "sabotage" Nicaragua in the United States Congress⁵³. The CAUS strike was part of a broader "imperialist destabilization plan," Arce asserted, playing a role similar to that of United States-financed strikes under Allende (B 01-03-80). Yet there was some sympathy for the CAUS action within the FSLN unions. CST head Ivan García commented that the demand for a 100% salary increase was "reasonable," but could lead to "contradictions with the reactivation plan" (LP 15-02-80).

The strikes continued until early March, when striking workers received a wage increase of 10% (B 04-03-80). Immediately afterwards, attacks were launched against CAUS officials. The same day another non-FSLN union launched a strike at a sugar mill, the "masses" seized CAUS offices in Leon (B 05-03-80). The following day, the central

⁵³Arce was referred to opposition in the Congress to the Carter administration's proposal to loan a \$75 million.

CAUS offices in Managua were seized by CST activists who chanted "Death to the betrayers of the working class" (B 06-03-80).

In mid-1980 the government relaxed its salary austerity somewhat, granting a fixed increase of C\$125 to all those earning less than C\$1,200 monthly. This measure was said to benefit some 300,000 workers (B 09-06-80). The form of the increase indicated a desire to reduce the salary "fan" between high- and low-paid workers. This policy was maintained in the 1981 economic plan, which mandated larger percentage salary increases for lower-paid workers.

The policy of wage austerity was also applied in rural areas, despite the seasonal rural labour shortage, and even though the 1981 economic plan noted that salaried workers in non-agricultural material production earned 88% more than agricultural workers (MIPLAN 1981a, 96). By the end of 1981, the deflated rural minimum wage was one-third lower than in 1977 (Table C.9). Nevertheless, it could be argued that the living conditions of rural workers actually improved over this period⁵⁴.

Perhaps more than any other issue, the salary question brought out vanguardist themes in the rhetoric of the National Directorate. In a 1982 speech to workers, Victor Tirado, the National Directorate's liaison with unions, complained that

in the beginning, damage was caused because instead of focusing our energies on consolidating the strategic enterprises and strengthening the working class, we (sic) began to discuss things, to demand salary increases, to make demands that the revolution was in no position to fulfill (rpt. 1986, 76)⁵⁵.

⁵⁴As I noted in Ryan (1983):

For the first time, large coffee and cotton producers must respect minimum-wage laws. They must also provide better meals for their workers and, in many cases, pay their health costs. Some producers say that workers are not as productive as they used to be and that they have shortened their work day. Edgardo García of the A.T.C.... suggests that, if some workers are not producing as much as before, it is because they are now working at a more humane pace.

Baumeister (1985, 71) argues that rural workers enjoyed a "significant increase" in earnings in the 1979-1981 period, due in part to the new state's determination to enforce wage legislation. He also argues, however, that real rural wages declined after 1981.

⁵⁵In Tirado's selected works, this speech is titled "Let us overcome economism through ideological struggle."

The government, Tirado went on, had offered a "social wage" consisting of subsidies on some basic food products, to avoid increases in nominal salaries.

And what was the response of workers? Strikes, factory seizures, work stoppages, absenteeism, labour indiscipline, conflicts between workers, managers, and administrators (Ibid., 77).

"We understand," Tirado added generously, "that this is a legacy of the past." Yet it was not a "legacy" the FSLN was prepared to tolerate for ever. Manifestations of "spontaneity" within the workers' movement, Tirado declared in a 1981 speech, "must be abandoned" (Ibid., 72).

The language is revealing. The National Directorate had declared this a time to rebuild, not to discuss, and workers must act accordingly. Conflicts between workers and managers were all part of the workers' short-sighted response to the government's salary policy. This paternalism was accompanied by a dose of new-speak. "Salary restrictions," Tirado urged in a 1980 speech, "should be seen as a measure adopted freely, voluntarily, and consciously by the workers themselves" (Ibid., 63). Whether the salary policy was wise or misguided, it certainly was not a measure adopted "freely" by Nicaraguan workers. But the vanguardist orientation is constantly prone to confuse the views of workers with those of the leaders of the institutions claiming to represent the workers, which institutions are established by... the vanguard itself. As the 1980s wore on, this confusion would weaken the FSLN's awareness of the political impact of the economic crisis, contributing to its certainty that it would win the 1990 election (see chapter 8).

D. Relations with the bourgeoisie

We saw in chapter three that Humberto Ortega had noted in 1978 that:

The FSLN must walk a stretch together with the bourgeoisie, a stretch during which the bourgeoisie and imperialism will try to destroy us and divert the Sandinista liberation process, just as we will try to destroy them and throw their reactionary aspirations into the garbage (rpt. 1981, 40).

It appeared in the 1979-1981 period that this stretch had already ended. Through the period, the FSLN's relations with the bourgeoisie deteriorated rapidly, and by the end

of 1981 the organized bourgeoisie was fully and openly in opposition to the Sandinistas. With this deterioration in relations went the loss of the early hopes of incorporating bourgeois production into the socialist economy. Henceforth the FSLN's economic project would advance in the face of bourgeois hostility.

Government and pro-government documents occasionally profess surprise at this turn of events. They point to the young government's "generosity" in its dealings with the private sector⁵⁶. But the conflict between the FSLN and the bourgeoisie was not fundamentally about rates of profit, taxes, or interest, though these immediate economic questions did play a role. Rather, the fundamental conflict was about power. To put it simply, what the bourgeoisie felt the government must do to guarantee the bourgeoisie's long-term interests was incompatible with what the FSLN felt it must do to consolidate its power and to lay the groundwork for change.

Ironically, then, the FSLN which was trying so hard to recreate the popular classes in its own image, to have those classes transcend economism and look to their long-term interests (real or alleged), found itself confronting an adversary which was looking to the long-term⁵⁷. The elements of the bourgeoisie that coalesced around the Superior Council of Private Enterprise (COSEP), that saw La Prensa as its mouth-piece, had all the characteristics of a healthy "class-for-itself." That much of this class-for-itself jumped into the arms of the Reagan administration is proof, not of its immaturity, but of its willingness to behave as Marxist theory has always held it must, by putting its class interests ahead of those of the nation, or (more charitably) by confusing the two. To trace the deterioration of the FSLN's relation with the bourgeoisie, I will focus on the various

⁵⁶A document of the International Fund for Reconstruction (FIR 1982) is typical. It outlines the generous debt restructuring policies provided for the private sector in the post-insurrection period, including the cancelling of delinquent interest payments, the easy credit made available to the private sector, the high rates of profit being realized in the 1980-81 period, etc.

⁵⁷The FSLN tried unsuccessfully to channel the bourgeoisie in an economic direction, and members of the National Directorate repeatedly expressed their displeasure at bourgeois demands that were "political in nature, going beyond the framework of financial demands," as Henry Ruiz put it (B 14-03-80).

ways in which the bourgeoisie found its long-term interests threatened by the Sandinistas, and on the latter's efforts to neutralize the political resources with which the bourgeoisie sought to promote its interests.

Many members of the bourgeoisie believed to the last hours of the Somoza régime that the United States would find some way of dumping Somoza while preventing an FSLN victory⁵⁸. Even as the Sandinistas entered Managua, leading members of the bourgeoisie were in Caracas trying yet again for a negotiated solution that would create a "system of democracy and free enterprise," as the Nicaraguan Chamber of Industries had once put it (FBIS 10-08-78).

Thus, Sergio Ramírez notes that July 19, 1979 "found the bourgeoisie without arms, without a viable project" (1987, 172). In this situation, how could the bourgeoisie best protect its long-term interests? One can infer from the actions and declarations of the organized bourgeoisie⁵⁹ three broad objectives: (i) to consolidate the bourgeois presence in the new state; (ii) to limit the scope of the state through, for example, the entrenchment of property rights and the promotion of a "state of law"; and (iii) to overturn or at least to "moderate" the régime through elections.

With what resources would the bourgeoisie pursue these objectives? Again, the bourgeoisie's actions and declarations demonstrate its reliance on three types of resources: (i) its ideological resources, especially the means of communication in its hands and its alliance with the Catholic hierarchy; (ii) its ownership of means of production, which lent weight to its call for a "proper business climate"; and (iii) its external allies.

The FSLN, for its part, sought to convert the bourgeoisie into producers without power, who would "give up their political expectations and utilize their experience and capabilities to work for the benefit of production" (Borge 1985d, 26). As Jaime Wheelock

⁵⁸Written from a Reaganite perspective, Christian (1985) provides an interesting account of Washington's efforts to do just this.

⁵⁹Key declarations of COSEP and its member organizations, which accord with the analysis presented here, are published in (LP 02-03-80); (LP 26-05-80); (LP 11-11-80); (JPRS 74894).

put it,

Their place in the revolution has been that of those who are called upon to prepare the food at a banquet. They are not invited to the banquet; they are only the ones who prepare the food. And we want to keep them hidden away in the kitchen, not to come out. When they do, we give them a few lashes... (cited in Austin and Ickis 1986, 785).

The FSLN's strategies and tactics to achieve this objective were almost the mirror image of those of the organized bourgeoisie. Thus, control over the state should be consolidated and unreliable elements excluded; the ideology of property rights and of the "state of law" should be challenged, in order to keep the state's options open; the bourgeoisie's ideological terrain should be contested; the bourgeoisie should be dissuaded from using the means of production to extract political concessions, etc.

The foregoing analysis provides us with six themes through which to examine the Sandinista-bourgeois relation in the 1979-1981 period. These are: (i) the struggle for control of the state; (ii) the state of law; (iii) elections; (iv) the media and ideological struggle; (v) the political use of private means of production and the "decapitalization" issue; and (vi) the bourgeoisie's external alliances. After examining these issues, I will conclude with an examination of the final break-down in relations in late 1981.

The consolidation of FSLN control of the state. It was not at all clear in July 1979 that the FSLN had gained the lion's share of state power. One United States leftist argued that the new government junta was dominated by "personalities from non-revolutionary forces," that the cabinet "appears to be overwhelmingly controlled by liberal professionals," and that only six of the Council of State's thirty-three members were of the left (Petras 1979). Another observer believed that the FSLN held only three out of eighteen positions in the first cabinet (H. Weber 1981, 77).

These evaluations misunderstood the correlation of forces in July 1979. The formal Sandinista presence in the state was much greater than Petras or Weber realized. Part of the confusion arose from the fact that figures such as junta member Sergio Ramírez and other members of the "Twelve" who were in the cabinet had yet to reveal

their Sandinista affiliations. Maintaining confusion surrounding the "Twelve" had been part of Humberto Ortega's insurrectional strategy (chapter three).

Nevertheless, even had all those affiliated with the Sandinistas revealed themselves immediately, the non-Sandinista presence in the state immediately after taking power would have been impressive. In particular, four key cabinet positions were in non-Sandinista hands. Roberto Mayorga, a technocrat and former general secretary of the Central American Common Market, was minister for planning. Noel Rivas, a former president of the Chamber of Commerce and high Conservative Party official, held the industry and trade portfolio. The agriculture ministry was headed by Manuel Torres, a large landowner affiliated with the Christian Democratic party, while Bernardino Larios, a former colonel in Somoza's National Guard, was defence minister.

Evaluation of the degree of real Sandinista control, however, must bear in mind that the National Directorate never intended to allow the junta, cabinet or Council of State to serve as the state's supreme decision-making bodies. This role was reserved for the Directorate itself.

In the latter half of 1979, this real structure of power began to reveal itself. Not surprisingly, the confusion over power was clarified most quickly in relation to the armed forces. As noted in chapter three, the Sandinista leadership was determined that the army be "schooled in fidelity to the vanguard of our people" (JPRS 74338). The army's loyalty to the nation would be mediated by its loyalty to the vanguard of that nation. This quickly became clear, in both symbolic and practical terms.

Symbolically, Decree 53 of August 1979 declared that the armed forces would henceforth be named the "Sandinista Popular Army." This title took on greater significance the following month. After an opposition party tried to change its legal name to the "Sandinista Social-Democratic Party," the junta issued a decree declaring that

The use of the label 'Sandinista', in political terms, is reserved exclusively to the SANDINISTA FRONT FOR NATIONAL LIBERATION (F.S.L.N.) and the... organizations of any type that it organizes or that are under its direction (Decree 67).

To the opposition, this seemed an open declaration that the army belonged to the FSLN⁶⁰. The question of party control over the armed forces, and of the confusion between party and state in general, would become a central theme in bourgeois political declarations⁶¹. For the FSLN, however, to complain of the "Sandinista character of the state and of the armed forces" was to "question the unquestionable," as Barricada put it (B 12-08-80).

Nor were the armed forces Sandinista in name only. In keeping with the leadership's view of the importance of ideological training (chapter three), it was announced just three weeks after the taking of power that the political formation of the armed forces had begun (B 11-08-79). Luis Carrión noted that this political training would be in the hands of the FSLN,

Because these are Sandinista armed forces. That is, the FSLN is not a political party that can be compared to any other party in Nicaragua. So if these armed forces should be educated in the concepts of the New Society, logically the FSLN, as vanguard of the Nicaraguan people, is the most appropriate organization to undertake that task (B 04-02-81).

Two actions, in December 1979 and April 1980, brought the formal distribution of state power into line with the real one, and signalled to the bourgeoisie its marginalization from the state. At the end of 1979, the cabinet was restructured, and the four key non-Sandinista members lost their positions. Henry Ruiz and Humberto Ortega entered the cabinet, Wheelock added agriculture to his agrarian reform portfolio, and the Sandinista character of the executive became much more evident.

The April 1980 action was more explosive. The composition of the Council of State promised in the June 1979 Plan of Government would have left the FSLN and its affiliates in a minority position. In April, however, the three FSLN members of the government junta expanded the Council from thirty-three to forty-seven members, and

⁶⁰Whether this was so depends on the meaning of the phrase "in political terms" in the decree. Bayardo Arce later stated that the decree was aimed exclusively at partisan organizations, not organs of the state (H. Ortega et al 1986, 71). But other statements by the leaders indicate that the FSLN did in fact view the armed forces as its exclusive preserve (see below).

⁶¹See eg. the declarations in (JPRS 74894), (LP 26-05-80), (LP 11-11-80).

granted seventeen Council seats to FSLN mass organizations such as the Sandinista Defence Committees (nine seats) and the two major FSLN union federations (three seats each)⁶². Though the junta had the authority to make the changes under Article 29 of the "Fundamental Statute," the government's quasi-constitution, critics saw the move as a betrayal of pre-triumph agreements between the FSLN and other sectors⁶³.

The change in the Council of State was the reason cited by Alfonso Robelo who resigned from the junta days later⁶⁴. Coming just days after Violeta Barrios de Chamorro

⁶²Decree 374. The junta also made other, less significant changes.

⁶³One of the great puzzles of this event is why the FSLN risked generating so much antipathy for a gain that was relatively unimportant. The original allotment gave the FSLN six of thirty-three seats. A further six seats were granted to the United People's Movement (MPU), the FSLN's broad internal front, formed in 1978 (Black 1981, 120f). [The New York Times termed the MPU "the Sandinists' political arm" (NYT 29-07-79).] Though the MPU was dissolved after the FSLN victory, the FSLN had a strong moral claim on these seats, which would have given it just over one-third of the Council's seats. Robelo was apparently ready to accept this proportion of FSLN representation (Christian 1985, 148), and COSEP also allowed that "The changes that have occurred in Nicaraguan political forces perhaps merit a revision of the original plans of representation (JPRS 74894). Though one-third is not a majority, it was enough for all practical purposes, since the Fundamental Statute had given the government junta, on which the FSLN enjoyed a majority, the power to initiate legislation which the Council of State would require a two-thirds majority to veto. A two-thirds majority would also be required to override a junta veto of any legislation initiated by the Council. Hence, its majority on the junta in addition to over one-third of the Council seats would have given the FSLN effective control over the legislative process.

⁶⁴Robelo was one of several members of the bourgeoisie who seemed to lose their feet completely in the wake of the FSLN victory. There had apparently been much hesitation within the FSLN leadership at including Robelo, a young industrialist affiliated with COSEP, on the junta. As late as March 1979, Robelo was advocating a "dialogue" with Somoza's National Guard, in the hope of forestalling an FSLN victory. Henry Ruiz predicted at the time that Robelo would be one of the "future tyrants" of Nicaragua, with support from the "northern empire" (FBIS 16-03-79). In the end, however, it was believed that Robelo's presence on the junta would calm bourgeois fears.

Once in office, Robelo seemed to undergo a rapid ideological transformation. Just one week after the triumph, he gave a speech in Havana praising the FSLN, Nicaragua's "glorious vanguard," and declaring "Cuba and Nicaragua united will triumph" (B 27-07-79). This was followed by such gems as "Long live the unforgettable example of President Ho Chi Minh". (B 14-09-79). More worrisome to the bourgeoisie than these rhetorical flourishes were Robelo's musings on the role of private property in Nicaragua, which should be respected "on the condition that it fulfils a social function" (LP 15-02-80). He warned business people to focus on "social benefits," rather than profits (B 14-08-79), and began sprinkling his speeches with references to socialism. [The left-wing El Pueblo newspaper commented drily that "only the bourgeoisie talks about heading towards socialism. There is something fishy here" (rpt. JPRS 74601).]

Robelo soon came to his class senses. After leaving the junta, he later became a contra leader. It is reported, however, that other contra leaders never forgave Robelo his

had stepped down citing health reasons, Robelo's resignation left the junta without any figure enjoying the confidence of the bourgeoisie.

Robelo's resignation, and his subsequent announcement that his Nicaraguan Democratic Movement (MDN) would not take its seat in the Council of State, created a dangerous situation for the FSLN. Were the bourgeoisie as a whole to follow Robelo's lead and refuse to participate in either the legislative or executive branches, it would have been much more difficult for the government to project the moderate image felt necessary to maintain international legitimacy. The FSLN thus entered negotiations with part of the bourgeoisie, in which the latter was able to wield the external legitimacy question in order to gain some concessions (see below).

Whatever concessions it might win, however, the direction of events was clear to the organized bourgeoisie. Declarations repeatedly complained of the private sector's "marginalization" from state decisions⁶⁵. By mid-1980, it was clear that the bourgeoisie's first long-term objective, that of maintaining its presence within the state, had been completely frustrated. This made the question of limiting the state, of establishing a "state of law," all the more important.

The FSLN and the rule of law. The need for guarantees of property rights, and of limits on state action in general, was a constant theme in bourgeois statements during this early period⁶⁶. The bourgeoisie gave particular importance to the need for a "Law of Protection" [*ley de amparo*], that is, a law providing for judicial review of administrative actions affecting individuals or their property.

collaboration with the Sandinistas and his early rhetorical excesses.

Robelo's bourgeois partner on the original junta, Violeta Chamorro, also had some difficulty keeping a clear head in the early going. She routinely referred to the FSLN as "our vanguard" (LP 11-01-80). Edgar Chamorro (1985), who for a time would become a contra leader, recalls being at a late 1979 rally with Doña Violeta, in which she raised her fist in the air and shouted "On to El Salvador."

⁶⁵Eg. (LP 11-11-80); (LP 02-03-80).

⁶⁶Eg. (LP 25-01-80); (JPRS 74894); (LP 18-02-80); (LP 26-05-80).

But demands for a state of law ran into the FSLN's superstructural conception of law. The leadership shared Bayardo Arce's view that

laws are nothing but expressions of the political-juridical superstructure of a society, and defend and reproduce the economic structures of that society (B 22-06-80).

FSLN leaders thus regularly expressed scorn for the niceties of "bourgeois legalism"⁶⁷, which was a "strait-jacket" binding the revolution⁶⁸. Opponents of the revolution might promote such "myths" as equality before the law, Luis Carrión declared, but "we all know that, before the judge, the millionaire and the poor man are never treated equally." Thus the very concept of legal equality is "linked to ideological diversionism" (B 19-04-82). Carrión went on to criticize the equally mythical idea of "three powers": "The State is supposedly divided into three powers, leaving the judicial branch the role of preserving the interests of the exploiting class" (Ibid.). But it was precisely this "myth," which was an ongoing target of Sandinista speeches⁶⁹, that the demand for a Law of Protection sought to uphold.

The corollary of the view that laws are but an expression of economic interests is that bourgeois demands for due process, equality before the law, etc., were made in bad faith, as a cover for naked class interests⁷⁰. Hence, the superstructural approach, apart from being an ideological legitimation for the FSLN's own disregard for the problem of

⁶⁷Thus did Daniel Ortega dismiss complaints over the closing of a left-wing newspaper in early 1980 (B 02-02-80).

⁶⁸Luis Carrión (B 19-04-82).

⁶⁹Tomás Borge suggested in 1984 an explicit suppression of the formal separation of powers, arguing that "Whoever is not aware that in a Revolution there is only one power, the revolutionary power, has not understood anything about anything" (1984c). Victor Tirado dismissed the notion of separation of powers as a "political provocation and the ideology of imperialist democracy" (1986, 303).

⁷⁰In the Nicaraguan case, this corollary was strengthened by the fact that, as FSLN-opponent Alfredo Alaníz recognizes, "law practically never ruled" in Nicaragua (1985, 50). Thus, FSLN leaders wondered aloud how the bourgeoisie had suddenly become allergic to arbitrary government practice, when it had by and large tolerated that practice under Somoza. In all fairness, the bourgeoisie could answer that, to the extent that it had opposed Somoza, it had done so precisely to put an end to arbitrary practices.

law, also provided a key for interpreting the demands of others.

To say that the FSLN's approach to law reflected its general ideological orientation is not to say that the approach did not serve to confront real dilemmas. Formal legal equality can coexist with substantive class-inequality of access to the legal system⁷¹. In addition, class biases will permeate many conceptions of justice and civil rights⁷². Hence it is not surprising that, as Weber put it, "Formal justice and the 'freedom' which it guarantees are indeed rejected by all groups ideologically interested in substantive justice" (1978, 813). Unless they could rapidly address the class-inequalities of access to the legal system, and generate a whole new legal code to articulate the new rights they were trying to create, the Sandinistas were faced with the dilemma of either tolerating the continuance of the substantive class-inequalities of the legal system, or ignoring that system when necessary. They generally chose the latter option.

When they did try to articulate new rights and duties, Sandinista laws often used a vague language that worried critics⁷³. Thus, Article 4 of Decree 5, the "Law for the Maintenance of Order and Public Security," passed on the first day of the government junta's operation, made it a crime to say or write anything that might "hurt popular

⁷¹Without entirely subscribing to the superstructural view of law, one must admit that the simple cost of legal processes skews access.

⁷²An example pertinent to the Nicaraguan case is freedom of expression. Many foreign observers deplored Sandinista controls on opposition media as attacks on the sacred freedom of the press. I know of no foreign protest, however, against the common practice of the owners of those opposition media of firing staff members for political reasons (see below). It appears to be a common assumption that the capitalist property rights of the owner of a medium should take precedence over the freedom of expression of mere employees.

⁷³In its December 1979 submission to the government, COSEP complained of laws that contain "many vague and inexact conditions" (JPRS 74894).

interests or abolish the gains won by the people"⁷⁴. Article 17 of Decree 52, the "Statute of Rights and Guarantees" of August 1980 begins with the simple principle that "No person will be forced to do that which the law does not order, nor barred from doing that which the law does not forbid." But the article then exempts from this principle

the duties of action and omission imposed by human solidarity, the duty to behave one's self fraternally, the respect for the rights and freedoms of others, and the necessity of satisfying the just demands of morality, of public order and of general welfare in a democratic society, even when these duties are not expressly established by Law.⁷⁵

The Council of State debate on a law to regulate professionals (Decree 783) indicates the issues at stake in the use of vague language in legislation. An opposition member called for the removal of an article establishing penalties for "those actions or omissions that act against the ethical principles that govern the present law" (B 11-06-81). The suggested amendment won enough FSLN support to carry, though the law's language was typical of much legislation being passed. One FSLN member of the council called for the article to stand, stating that "it is necessary to establish the obligation to respect the spirit of the law."

This presents the FSLN position clearly: by including many general principles in their legislation, the Sandinistas were demanding respect for the "spirit" of their laws. They thus eschewed attempts to capture this spirit in infinitely detailed legal codes defining, for example, the conditions under which a firm could be considered guilty of

⁷⁴Amnesty International U.S.A. (1983) criticized this and other articles of the law. Article 8 of Decree 5 states that the decree was intended only as an emergency law. But Decree 383 of April 1980 incorporated the law into ordinary penal legislation. Decree 488 of August 1980 amended Article 4 to clarify the sorts of statements that were legally taboo. Ironically, the amended article made it a crime to cast aspersions upon "The authority and the impartiality of the Judicial Power." The FSLN leadership was repeatedly guilty of this offense!

⁷⁵Other examples abound. Among the most significant is Decree 48 on means of communication, which holds that critiques of public officials should be constructive, be motivated by the "defence of the conquests of the revolution," and cannot be "the instrument of anti-popular interests." Decree 760 mandates the expropriation of all property of persons outside the country for six months, unless they show "justified reasons" for the absence. The definition of such reasons is not defined, and the Ministry of Justice is left to apply the law on a case-by-case basis.

decapitalization. The intention would appear to have been to scare the bourgeoisie, among others, away from a spirit of minimal compliance with the letter of the law⁷⁶. Such an enforced compliance with the spirit of the law is not absent even from capitalist law.

Weber notes that

Much of the system of commodity exchange... is possible only on the basis of far-reaching personal confidence and trust in the loyalty of others. Moreover, as commodity exchange increases in importance, the need in legal practice to guarantee or secure such trustworthy conduct becomes proportionately greater. But in the very nature of the case, we cannot, of course, define with formal certainty the legal tests according to which the new relations of trust and confidence are to be governed (1978, 884).

The problem from the bourgeoisie's point of view, then, was not so much the inclusion of vague terms in legislation, but the structure of power within which those terms would be interpreted. It was no longer a case of a judge from an upper-class background deciding which of two parties had not exhibited good faith in a contractual relation, but of the spirit of Sandinista legislation being interpreted in a new judicial framework hostile in many respects to the bourgeoisie as a whole.

For the articulation of new rights and duties was accompanied by the development of judicial and quasi-judicial structures in which many traditional guarantees were suspended. Decree 5, for example, established "Special Emergency Tribunals" to try those accused of offences against public order. Though the tribunals had the power to imprison people for up to ten years, the decree stipulated that those accused be given just two days to prepare their defence, that the trial last no more than three days, and that the tribunal's sentence be inappellable.

A key example of new quasi-judicial structures were the Agrarian Tribunals, established to hear appeals of decisions taken under the July 1981 Agrarian Reform Law (Decree 782). The decisions made by the tribunals were inappellable. In one of the

⁷⁶The FSLN had little patience with the sort of bourgeois calculation that evaluates whether it is profitable to use the justice system to delay or avoid compliance with administrative decisions. Indeed, after the government passed the Law of Protection, a Ministry of Labour official accused "the most reactionary entrepreneurs" of doing just this (B 12-08-80).

clearest expressions of the class orientation of Sandinista legislation, Decree 832 barred from sitting on the Agrarian Tribunals any person who had ever

taken part in judicial proceedings against a peasant on matters relating to land, either as a party, attorney, witness or in any other way.

Thus, Sandinista legislation clearly indicated that the FSLN leaders's belief in the superstructural nature of law was not going to remain at a purely philosophical level. That belief guided, or at least had a strong affinity with, their approach to law and to bourgeois demands for legal guarantees. There was much in the Nicaraguan reality that supported both the superstructural view and the practice that accompanied it, but this practice had its costs. As E.P. Thompson (1975, 262f) has argued, the view of law as a "pliant medium to be twisted this way and that by whichever interests possess effective power" can lead one to forget that "If the law is evidently partial and unjust, then it will mask nothing, legitimize nothing, contribute nothing to any class's hegemony." Whatever the motives sustaining the FSLN's approach to law, that approach fostered the view among many Nicaraguans that the FSLN constituted just one more *de facto* regime, like so many others that had plagued the country through its history.

As the Sandinistas rejected the idea of a "state of law" in general, they were also cool to property rights in particular. This attitude at times reflected the leadership's attempts to deal with pressure from the FSLN's mass organizations and its broad social

base⁷⁷. An example of how the mass organizations could complicate the handling of property questions came in early 1980, around the issue of "intervened" property. Decree 38 of August 1979 had given the government the power temporarily to "intervene," i.e. temporarily seize, the property of persons accused of being Somocistas, to prevent the deterioration or sale of such properties while investigations were being carried out. MIDINRA had also intervened a number of private farms that had been seized by workers, or where workers were in a severe conflict with the owners⁷⁸.

Anxious to end a situation in which the state was acting as a temporary manager for scattered holdings, the government in early February 1980 passed Decree 282, which outlined procedures for the definitive confiscation of intervened properties, or their return to their owner in cases where the owner "is not subject to confiscation according to relevant legislation." But the Decree led the FSLN's Rural Workers' Union (ATC) to organize a mass march on Managua, demanding that "not one inch of land" be returned to owners (B 17-02-80). The government accepted the demand, passing Decree 329 which expropriated all properties currently under MIDINRA intervention⁷⁹. At the same time, the decree outlawed land seizures, ordering that all future expropriations be undertaken

⁷⁷Though opponents of the FSLN saw these organizations as pure "transmission belts," their actual role was more complex, often to the chagrin of the FSLN leadership. A September 1979 internal party document criticized mass organization leaders who "have practically nullified the authority of government representatives and are demanding measures that have nothing to do with the guidelines that have been charted," thereby seeking to make the mass organizations the "sole judges of how things should be run" (FSLN 1987, 224). Another reflection of the relative autonomy between the FSLN and its mass organizations is Decree 388, which stripped the Council of State of its power to veto decrees passed by the government junta. Since the FSLN and its mass organizations together comprised a majority in the Council, this Decree would have no reason for being had the organizations been purely passive transmission belts. The mass organizations were thus neither simple reflections of the classes they claimed to represent, nor pure instruments of the FSLN.

As the war progressed in the 1980s, this dialectic would be weakened, and some of the mass organizations would increasingly take on the characteristics of "transmission belts." Others, such as UNAG, would retain a high degree of autonomy.

⁷⁸There does not seem to have been any legal authority for MIDINRA to do this.

⁷⁹Ironically, the very language of the decree mimics Decree 282, by calling for the confiscation of all intervened property "not subject to confiscation according to relevant legislation."

only by MIDINRA.

COSEP protested strongly against what it termed a "legalization of arbitrary actions," and warned the government that "a crisis is at the doorstep" (LP 06-03-80). One could not expect the bourgeoisie to be grateful for the provision of Decree 329 outlawing private land seizures: stealing property had always been illegal, they might reason, why was it necessary to pass a law forbidding that which was already forbidden⁸⁰? For many bourgeois, the real message of the law was that the FSLN, however much it might proclaim its respect for private property rights, was willing to legalize violations of those rights.

Interestingly, the government was much more cautious with the property rights of the urban bourgeoisie. Some factories had been seized by workers prior to Decree 329 (B 15-11-79; B 14-12-79), but the decree led to a rush of seizures by workers demanding that factories be nationalized just as land had been (LP 28-02-80). Though the government was willing upon occasion to expropriate factories, it refused the demand for a blanket nationalization of all factories seized by workers. Moises Hassan of the government junta called upon workers to exercise "patience, cautiousness, serenity, sacrifice, and political clarity," warning them that "there are certain limits that cannot be passed, without endangering the Revolution" (B 12-03-80)⁸¹. Thus the FSLN was making a clear distinction between urban and rural capital. This may reflect an awareness of the different "stages" of the two types of capital (above, chapter 4), or it may be because FSLN ideology had no urban equivalent for the rural "right to land."

⁸⁰The bourgeoisie could also point to previous, and ineffectual, condemnations of land seizures. In August 1979, for example, Jaime Wheelock had condemned land seizures as the "methods of Somoism" (B 02-08-79).

⁸¹Even when it respected property rights, however, the FSLN could put a scare into the bourgeoisie. Hassan's speech to workers went on to state that "We have lots of time ahead, and the measures we take will be taken in the necessary and opportune moment."

The election question. Having been frustrated in its attempts both to maintain a strong presence within the state and to establish a "state of law," the bourgeoisie found by mid-1980 that its hopes for imminent relief from Sandinista rule through elections were also not to be realized. In the wake of the resignations of Violeta Chamorro and Alfonso Robelo from the junta, COSEP negotiated an accord with the Sandinistas, through which it agreed to participate in the Council of State in return for certain concessions (see below). An element of the May agreement between the FSLN and COSEP that was not made public at the time was that a date for national elections would be set on July 19, the first anniversary of the revolution. In late May, it was reported that Borge was indicating that municipal elections would be held in 1981, and national elections in 1982-83 (LP 26-05-80). July 19 came and went without an election announcement however. COSEP immediately complained, saying the May agreements had been violated (B 22-07-80). Daniel Ortega admitted that the FSLN had promised to set a date for elections, but changed course because of an "immoral campaign of blackmail" on the part of those who wanted to "force the Revolution to set a date" (B 03-08-80).

In late August, COSEP got its election announcement, though not of a sort that it had anticipated. In a speech at the end of the literacy crusade, Humberto Ortega read a National Directorate communiqué stating that elections would not be held before 1985. The long delay was necessary, the communiqué stated, to overcome "the backwardness and the economic, social and moral destruction of the country"⁸².

Thus far, the communiqué arguably remained within the bounds of the FSLN's pre-revolution understanding with other sectors, as codified in the "Plan of Government"⁸³. In his own addendum to the communiqué, however, Ortega told the

⁸²This vanguardist theme had previously been developed by other members of the Directorate. In May 1980, Daniel Ortega commented that elections would have to be preceded by the development of "a higher political consciousness, a higher vision of society," and by the eradication of illiteracy (B 13-05-80).

⁸³The Plan had not set a date for elections. Article 1.2 mandated the government junta to hold power "For whatever period of time is required ('el tiempo que se requiera') to lay the bases for a genuine democratic development in Nicaragua." The preamble to the document suggests that the entire Plan of Government, with its ambitious vision of social

crowd to

Keep in mind that these elections will be held to improve revolutionary power, not to raffle off power, because power is in the hands of the people, through its Vanguard, the Sandinista Front for National Liberation and its National Directorate (1980).

COSEP interpreted this addendum as a declaration of the FSLN's "intention of remaining in power forever" (COSEP rpt. 1987, 237). The FSLN's cultivated ambiguity on this point would not be abandoned until 1989, when the Sandinistas made it clear that they would leave power if they lost the 1990 elections.

Ideological struggle. As the FSLN frustrated the bourgeoisie's pursuit of its long-term objectives, it also sought to counter the bourgeoisie's political resources. This was most evident in the area of ideology, where the FSLN and the bourgeoisie wrestled for the hearts and minds of Nicaraguans.

Sergio Ramírez would comment in 1981 that "because of the strength of the contradictions that come to the surface after the revolution, it is impossible not to have an aggressive verbal war against the bourgeoisie" (rpt. 1987, 175). The central theme of this ideological offensive was the absence of the bourgeoisie from the struggle to overthrow Somoza. "In the trenches and on the barricades," proclaimed Tomás Borge, "we never saw those pretty people, those perfumed people. What we saw instead were the workers, the peasants, the great protagonists of the insurrectional and revolutionary triumph" (LP 14-04-80). Even the progressive elements in the private sector, argued Daniel Ortega, "never played a firm role within the process of liberation," and always sought a negotiated solution with Somoza (B 08-09-79). Members of the FSLN, on the other hand, had run the risks and paid the price of liberation with their blood. They had paid the piper, now they would call the tune. Asked by what right the new government had closed a Marxist opposition newspaper, Bayardo Arce proclaimed that "revolution itself is the source of

transformation, can be read as a gloss on the meaning of the phrase "the bases for a genuine democratic development."

right" (B 25-01-80)⁸⁴. One can question the connection between making a revolution and having the right to hold power afterwards, but it should be stressed that, in a country with no history of democratic legitimacy, the FSLN's grounding of its legitimacy on its role in overthrowing Somoza carried much weight. The FSLN's argument that participation in the overthrow of Somoza was a key source of political rights was implicitly accepted even by the Catholic bishops, who based their case for "freedom to organize political parties" on the fact that "Various forces have contributed generously to the historic process" (Conferencia Episcopal 1981). Similarly, a typical speech by COSEP head Enrique Dreyfus begins with a history of the revolution, showing the private sector's resolute opposition to Somoza (LP 02-03-80). Only then does Dreyfus move on to the bourgeoisie's complaints with the Sandinistas. Thus, the bourgeoisie countered the FSLN's history of the revolution with one of its own⁸⁵. In this version, a broad range of social forces had cooperated to overthrow Somoza, hence "the revolution has no owner," as opposition leaders often put it⁸⁶.

A second theme of the Sandinista ideological offensive was consistent with Humberto Ortega's vision of a two-stage revolution, discussed in chapter three: the FSLN leadership continually hinted at the transitory nature of the mixed economy, and insisted that the bourgeoisie subsisted at the pleasure of the FSLN. "When we have more power," declared Carlos Nuñez, "the workers and peasants will decide what they want this country

⁸⁴Ironically, Arce's comment echoed the declaration of the Brazilian military junta upon seizing power in a 1964 coup: "the successful Revolution... is legitimized by itself" (cited in Roett 1989).

⁸⁵One of the most complete presentations of this version is in (LP 02-01-80).

⁸⁶One of the difficulties for the opposition's history of the revolution was that the bourgeoisie could point to precious few of its members who had lost their lives in the fight against Somoza, while the Sandinistas were busily developing a mystique around the hundreds of "heroes and martyrs" who had died while in FSLN ranks. MDN head Alfonso Robelo claimed that the movement did in fact have a martyr, one Gustavo Arguello (LP 17-03-80). Arguello's wife angrily protested Robelo's statement, saying that her husband had always been an FSLN militant (LP 19-03-80). The puzzle was clarified when another FSLN member said that he had recruited Arguello for the FSLN, and had given him orders to infiltrate the MDN (LP 20-03-80).

to be" (B 25-09-79). "The Revolution will put an end to freedom of exploitation," promised Tomás Borge (B 29-10-79). Calls upon popular sectors to cooperate with the bourgeoisie were generally phrased in the form "our friends, at least for the moment, are the democratic bourgeoisie" (Nuñez, cited in B 09-10-79)⁸⁷.

This type of rhetoric is extremely puzzling, unless one sees it as a means to prepare Nicaraguan popular sectors for an eventual expropriation of the bourgeoisie. Talk of transitory alliances was not aimed at inducing more friendly behaviour from the bourgeoisie, since it suggested that large private enterprises would eventually be nationalized whatever the behaviour of their owners. The Sandinistas were repeatedly warned by bourgeois leaders that such rhetoric was hurting "business confidence," yet they continued to combat the idea that the existence of the bourgeoisie was natural or eternal⁸⁸.

In their ideological struggle with the bourgeoisie, the Sandinistas sought to contest the latter's ideological resources. This can be seen with respect to the media, religion, and education. After the fall of Somoza, the bourgeoisie controlled the La Prensa newspaper and twenty private radio stations. The government, for its part, controlled the country's only two T.V. stations, and thirteen radio stations (Nichols 1982). These media were acquired through the decree expropriating the belongings of Somoza and his allies. In addition, the physical assets of the Somoza-owned newspaper, Novedades, somehow ended up directly in FSLN hands, rather than being transferred to the state. These assets formed the basis of Barricada, the official party newspaper.

The Sandinistas certainly saw the media under their control as instruments of ideological transformation. An early Barricada editorial announced that

The task of we journalists is to contribute to having no Nicaraguan remain

⁸⁷See also the comments of Wheelock (B 05-10-79), D. Ortega (B 16-08-79), and Borge (B 24-04-80).

⁸⁸One observer asserts that Sandinista statements had no impact upon the bourgeoisie, that "there is little evidence that the leaders of COSEP treated them as anything more than rhetorical flourishes" (Winson 1985, 93). It is in fact difficult to find any statement of the bourgeoisie that does not protest these "rhetorical flourishes" in the strongest terms. COSEP's mid-1980 condemnation of the "campaign of hatred and violence that some government leaders have initiated against honest citizens" is typical (JPRS 75883).

outside the mass organizations. Our work should be oriented through discipline, through the full identification with the process being traced out by our leaders (B 13-08-79).

"Rather than simple journalists," the paper declared, "we are Sandinistas" (B 07-09-79).

The Sandinistas hoped that the state's television monopoly would prove particularly effective, especially in urban areas⁸⁹. They thus rejected opposition demands for a private T.V. station. "In our country," Daniel Ortega stated,

means of communication, such as television, will not be placed in the hands of political interests whose intention clearly is not to support the Popular Sandinista Revolution (B 20-12-79).

Junta member Sergio Ramírez added that "In Nicaragua there will only be state television, so as to channel the culture and education of our entire people" (Ibid.).

For its part, it soon appeared that the bourgeoisie was seeking to turn the media under its control into unified voices of opposition. In December 1979, Radio Corporación cancelled all its newscasts and fired its reporters, who were apparently considered too progressive (B 01-12-79), and the Union of Radio Journalists of Managua claimed that a broad campaign was under way to marginalize progressive reporters (B 03-12-79)⁹⁰. The most dramatic evidence of this came in April 1980, and concerned the La Prensa newspaper.

An outspoken opponent of the Somoza regime, La Prensa had represented since the FSLN's victory an uneasy mixture of pro- and anti-government journalists⁹¹. In April, however, the paper's owners, the Chamorro family, opted to transform La Prensa into a unified opposition paper, and replaced editor Xavier Chamorro with his nephew Pedro

⁸⁹An early Barricada headline announced: "New T.V. show will combat bourgeois influence" (B 25-09-79).

⁹⁰Sergio Ramírez commented at the time that "If, without power in their hands, they are still willing to attack press freedom... and they are intransigent with those who disagree, expelling them from their newscasts because of 'incompatible ideas'... imagine what would happen to press freedom were they in power" (rpt. 1987, 163).

⁹¹At times the interaction between these tendencies took something of the form of a guerrilla campaign. In La Prensa's February 27, 1980 issue, for example, someone in the production staff appended to an Associated Press story on Cuba a note to the effect that the story was typical Yankee disinformation.

Joaquín Chamorro Jr. The staff, which opposed the action by an estimated three to one majority (Christian 1985, 154), closed the paper in protest, accusing the Chamorro family of wanting to turn La Prensa into "the spokesman of minority, privileged and anti-popular sectors" (FBIS 22-04-79). The paper reopened a month later, after the family agreed to give Xavier the capital necessary to open a competing paper, El Nuevo Diario, to which the majority of La Prensa's former staff transferred.

The FSLN would henceforth be faced with an opponent that enjoyed great domestic and international prestige, yet which was increasingly rabid in its opposition to the revolution and everything it stood for, and clearly aligned with the most right-wing sectors in the United States⁹². La Prensa would repeatedly confront the FSLN with insuperable dilemmas: as the war intensified, La Prensa seemed like a Trojan Horse in the heart of Nicaragua, yet every action against the paper damaged the prestige of the régime.

As the Sandinistas and the bourgeoisie vied for control over the media, so too was the Catholic Church contested terrain. The organized bourgeoisie enjoyed close relations with much of the church hierarchy, relations established during the last years of the Somoza régime. In August 1978, business sectors were proclaiming an alliance between "true capitalists and the Church" (FBIS 03-08-78). Shortly after the FSLN took power, an AFP story noted the formation of a business-church opposition, seeking to reduce FSLN control of the government (FBIS 10-08-79). While touring the United States in late 1979, a group of business people told a reporter that "the private sector allied with the Catholic Church will not allow extremists to dominate Nicaraguan politics" (FBIS 06-11-79).

⁹²Nichols (1988) alleges that the paper began receiving covert C.I.A. funding around this time.

In January 1984 I did a content analysis of one month of La Prensa's international news. The results were summarized in an article published under a pseudonym in (B 21-06-84), and in Ramírez (1987, 248). I found that over half of the paper's United States-centred news was "official," that is, stories of the form "U.S. officials stated today..." This type of news, essentially press releases of the Reagan Administration, made up fully one-sixth of all international news in La Prensa. United States official statements on Central America outweighed those from Nicaraguan officials by a 15:1 ratio. The bulk of United States official news on Central America consisted of direct attacks against the Nicaraguan government. I also found that the paper routinely suppressed information that might cast doubts on the Reaganite analysis of events in Nicaragua.

As conflict between the new government and the bourgeoisie intensified, the latter continued its increasingly successful overtures to the bishops. In December 1979 the head of the Social Democratic Party alleged that the FSLN had plans to divide and manipulate the church (FBIS 18-12-79). As he began to distance himself from the government, junta member Alfonso Robelo alluded to threats to the "sacred principle of freedom of religion," and continually invoked God and religion in his speeches (FBIS 19-03-80)⁹³.

We have already seen in chapter three that political interests in Nicaragua traditionally tried to wear the cloak of religious legitimacy, and that both the Sandinistas and their opponents relied on religious imagery in the post-1979 situation. The conflicting attempts to link Christian beliefs to specific political projects led also to attempts to change the internal structure of the Nicaraguan Catholic Church in accordance with those projects. Thus, La Prensa sought to magnify the stature of Managua Archbishop Obando y Bravo, a hard-line opponent of the Sandinistas, while ignoring more moderate bishops and the grass-roots of the church. The paper in effect tried to make a sort of "local Pope" out of Obando. He was continually referred to as "pastor of the Nicaraguan flock," though he was only in charge of the diocese of Managua (LP 05-09-82). He was the "illustrious Nicaraguan prelate" (LP 01-08-82), the "representative in Nicaragua of our God-Man" (LP 24-12-87), "father of his people" (LP 10-08-82).

Other bishops did not fare as well. When Carlos Santi was consecrated as bishop of Matagalpa in July 1982, La Prensa omitted his first sermon as bishop, in which he thanked "the Lord... Saint Francis... Pope John Paul... and the representatives of the government, with whom I wish to have a cordial, friendly, and respectful dialogue" (END 02-08-82; B 01-08-82). Instead, the paper carried a speech by Obando in which he spoke

⁹³Robelo's rhetoric led Eden Pastora to comment: "If I had Robelo's \$125 million, Jesus' comment about the camel and the eye of the needle would make me tremble with fear" (B 28-04-80).

Even from exile, Robelo's Nicaraguan Democratic Movement would continue to woo Obando y Bravo, referring to him as "the most beloved figure of the Nicaraguan people; his flawless conduct constitutes an extraordinary moral support" (La Nación, 22-08-82).

of the "difficult and heroic task" of being a bishop (LP 01-08-82)⁹⁴. When Julian Barni, another moderate, was consecrated bishop of León, La Prensa failed to report the event altogether.

The FSLN, for its part, tried to support progressive clerics and grass-roots communities, sectors that came under attack from the right as the Nicaraguan political situation polarized. Typical in this respect is Tomás Borge's comment, speaking to a group of children:

Have you heard of the Inquisition? No?... The revolution does not persecute the church. Sometimes we believe a high-ranking church sector is persecuting the revolution and Christians. In the times of Somoza, progressive priests and those identified with the people were persecuted by the Somozist tyranny. Now there is a church sector persecuting these same priests and nuns... they are doing the same thing Somoza did (FBIS 23-06-81)⁹⁵.

The opposition's overtures to the church were clearly more successful than those of the Sandinistas. Managua's Obando y Bravo remained one of the most popular figures in Nicaragua --and a strong opponent of the Sandinistas--throughout the 1980s, while by 1982 the base communities established to counter the power of the hierarchy in the church were already moribund.

The Sandinistas were more successful in other areas of ideological struggle, however. The vast majority of students were in state schools and, as with the media, the Sandinistas saw education as a process of "forming individuals in ideology," as Tomás Borge put it (1995a, 72). Just one month after the Sandinista victory, the new vice-

⁹⁴Obando was never loathe to blow his own horn. He commented on one occasion that "God works through men... and after God, I have also accomplished some things" (B 21-05-84).

⁹⁵In 1989-1990, the organizers of Violeta Chamorro's campaign for the presidency would continue the long national tradition of saturating politics with religious imagery. Chamorro, portrayed by her campaign as the "Mother of Nicaragua," made her campaign appearances dressed completely in white, evoking the "Most Pure" Virgin Mary, who is at the heart of popular religiosity in Nicaragua. A reporter commented that Chamorro "sometimes makes airy references to 'conversations' with God and her martyred husband" (Newsweek 09-10-89). Chamorro's daughter, editor of La Prensa, spoke of her father, Violeta Chamorro's murdered husband, in distinctly religious terms, referring to "his bullet-ridden body, like the Crucified Christ" (LP 21-08-90).

minister of education announced a plan to shift education from "Somocista and bourgeois knowledge" to "scientific knowledge" (B 15-08-79)⁹⁶.

The decapitalization question. One of the swords hanging over the heads of leftist governments that seek to coexist with a bourgeoisie is the danger of an implicit or explicit "capital strike." The Sandinistas gave early notice that they would counter any perceived attempt to extract political advantage from privately owned means of production. In January 1980 Attorney General Ernesto Castillo announced that some "capitalists" were "determined to carry out a process to withdraw the capital of the country's industries and businesses, thus sabotaging our reconstruction process." Castillo called on workers to "report all these cases because the government is willing to adopt harsh measures against the unscrupulous capitalists" (JPRS 75121).

In March 1980 the government decreed a law against decapitalization, which aimed to block the transfer of resources out of the country. In announcing the law, Luis Carrión called for "strict worker vigilance to guarantee the implementation of the decree" (B 03-03-80). This call for workers to enforce controls on capital made the bourgeoisie predictably nervous. Both before and after the decree, workers seized factories charging decapitalization.

The FSLN did not feel that the decapitalization law had overcome the problem. In the first half of 1981, there were repeated charges from mass organizations and FSLN leaders that urban and rural entrepreneurs were allowing their capital to run down, and that exporters were using transfer pricing to ship profits out of the country⁹⁷. These accusations were not fanciful. The New York Times cited a "young executive" saying

I've collected \$80,000 abroad since the revolution. Why shouldn't I? If I'm being called a bourgeois, an exploiter, a counterrevolutionary all day long on radio and television, I have to be prepared for what might happen

⁹⁶As was noted in chapter three, the Sandinistas gave great importance to the political importance of the 1980 literacy crusade. Opposition figures regularly complained of the political content of the literacy primer (see e.g. B 09-06-80; B 17-03-80).

⁹⁷See, e.g. (B 03-03-81); (B 12-03-81); (B 02-07-81).

tomorrow. The Government gives us economic incentives, but what we want is a climate of political confidence (NYT 16-08-81).

On July 19 1981, the second anniversary of the revolution, the FSLN responded to the decapitalization problem and to demands within the party and the mass organizations for tough action against the bourgeoisie. Fifteen companies were confiscated, including at least one that had been seized by workers earlier in the year (Decree 759)⁹⁸. Other tough measures were decreed, including an agrarian reform law (see below), and Decree 760, which "appropriated" the property of all persons who had been, or would be, absent from the country for six months without "justified reasons."

Daniel Ortega referred to these measures as the definition of the "rules of the game" that the bourgeoisie had so frequently demanded:

The rules of the game are imposed by the people. Those who wish to play are welcome to do so. Those who don't, they should get out of here or the people will crush them (1981).

In a clear expression of the FSLN's desire to push the bourgeoisie into an economic mould, Ortega declared that "In this country we are guaranteeing [the property] of anyone who wishes to produce without acting against popular power" (Ibid.).

External allies. The FSLN had to some degree succeeded in countering the bourgeoisie's ideological resources and circumscribing its ability to use ownership of means of production for political leverage. Weakening the bourgeoisie's external alliances, particularly with the United States government, would be a more difficult matter. The bourgeoisie saw United States pressure as a crucial element in its relations with the Sandinistas, and one can argue that the points of inflection in bourgeois strategy during

⁹⁸Sergio Ramírez referred to the decree as "a preventative and exemplary measure," a "warning" against decapitalization (B 22-07-81). Critics, however, said that one of the confiscated firms, the *Prego* soap company, had "money in the bank, rising production, a three-year supply of spare parts and a stockpile of imported raw materials" (WSJ 15-09-81). Stabler-Sholk (1984, 265) notes that the private sector was also particularly disturbed by the expropriation of the *La Perfecta* milk company, as it had a Law of Protection appeal before the Supreme Court at the time. Expropriation of the company was thus interpreted as a sign that no real judicial recourse existed.

the 1979-1981 period mirrored changes in the United States political climate.

As was noted in the previous chapter, once the Carter administration had failed in its attempt to forestall a Sandinista victory, it opted for a path of conciliation and modest economic aid, hoping that "the Sandinista-controlled government can be kept tied into the West's political economy," in the words of United States official Viron Vaky (cited in Ryan 1982). Thus United States officials repeatedly signalled that aid would be used to demand Sandinista respect for "human rights" (B 23-08-79), to "bolster private business" (NYT 17-03-80); and to prevent "Nicaragua being abandoned to Marxism" (LP 08-06-80).

This situation gave great leverage to the bourgeoisie: were it to signal that Nicaragua was "lost" to the Marxists, United States aid would have dried up. This leverage was evident in May 1980, in the wake of the departure of Robelo and Chamorro from the government junta. Arguing that Robelo's MDN party "does not defend the interests of private enterprise, since it is just one of many parties in Nicaragua" (B 30-04-80), COSEP took it upon itself to negotiate with the FSLN on behalf of the bourgeoisie. COSEP entered the negotiations with a long set of political demands, including the passage of the Law of Protection, stronger guarantees for private property, the separation of the FSLN and the state, and the formation of a constituent assembly through free elections. Indicating its concerns over tensions in the workplace, COSEP also called upon the FSLN to "foster attitudes that reconcile social classes"⁹⁹. COSEP's minimum demands for taking its five seats in the Council of State were the promulgation of the Law of Protection, an end to the state of emergency in place since July 1979, and the resolution of the La Prensa conflict (LP 26-05-80).

The Carter administration's proposed \$75 million loan formed the backdrop of these negotiations. The loan was meeting tough opposition in Congress, and the Democrats' Tip O'Neill linked the passage of the loan to the appointment of two

⁹⁹See La Prensa (26-05-80) for COSEP's list of its demands. Ramírez (1987, 163) gives quite a different picture, claiming that COSEP demanded three key cabinet positions during the negotiations.

"moderates" to the junta to replace Robelo and Chamorro (NYT 25-05-80)¹⁰⁰. Approval of the loan was critical for the Sandinistas, as it would provide a green light to other potential donors and lenders¹⁰¹. Without that green light, the Sandinistas' reconstruction programme would have been strangled.

It is thus not overly speculative to suggest that United States pressure contributed to the willingness of an FSLN normally so hostile to the political demands of the bourgeoisie to meet many of those demands in May 1980. The Sandinistas initiated passage of the Law of Protection, moved to resolve the La Prensa crisis, and restored the government junta to its original size of five members with the naming of Arturo Cruz and Rafael Córdova Rivas¹⁰². COSEP, for its part, agreed to participate in the Council of State, signalling an end to the government's first major political crisis. The United States Senate approved the \$75 million loan a week later (NYT 25-05-80).

The rise in Congress of a determined opposition to Carter's relatively conciliatory approach to the Sandinistas was one shift in the United States political situation of which the Nicaraguan bourgeoisie took note. A more dramatic shift, obviously, was the election of Reagan in November 1980. Just days after the election, COSEP and three conservative parties left the Council. Two "free" trade union federations followed meekly one day later. The timing of their withdrawal does not seem to make sense in terms of the domestic situation. There had been no particular provocations since the August election

¹⁰⁰The House had already linked approval to the condition that 60% of the loan be dedicated to the private sector.

¹⁰¹The Wall Street Journal commented at the time that international banking sources say approval of as much as \$500 million in additional international aid to Nicaragua may have been awaiting passage of the U.S. aid bill as a reassuring signal of U.S. confidence in the stability of Nicaragua. "With a yes vote from the U.S., world money ought almost to pour into Nicaragua," says one London development banker (WSJ 29-02-80).

¹⁰²Cruz had worked for several years at the Inter-American Development Bank. Córdova Rivas was a leading figure in the Conservative Democratic Party.

announcement¹⁰³. Thus, it is easy to conclude that the shift in COSEP policy reflected the changed international situation. The Republican Party platform had judged Nicaragua lost to the Marxists, and declared support for future efforts to overthrow the Sandinistas¹⁰⁴. Given the Reaganite position, it was natural for COSEP and various conservative parties to seek to establish themselves as an "authentic" opposition, and to distance themselves from any hint of "collaboration" with the FSLN. A COSEP official would later comment that "Reagan's rhetoric produces the triumphalism of the hard-liners. It means you abandon strategy" (Gutman 1988, 240).

The bourgeoisie's new hard-line stance was evident in another event of November 1980. Just days after the Council of State walk-out, COSEP's Jorge Salazar was killed by police near Managua. Though Salazar had been involved in a quixotic plan to provoke a coup against the FSLN¹⁰⁵, COSEP's once-conciliatory Enrique Dreyfus spoke of Salazar's behaviour as having been "heroic and exemplary," and other members of COSEP called him a "martyr for the motherland" (B 19-12-80). From this point on, bourgeois leaders would find themselves torn between pursuing the "civic struggle" and working for the overthrow of the FSLN.

Whether or not the bourgeoisie's actions in November 1980 were externally-motivated, the FSLN certainly interpreted them this way. Daniel Ortega commented that "minority groups have gained heart, thinking that the FSLN has lost force and that the President-elect of the U.S. is going to support them in attacking Nicaragua" (B 15-11-80).

¹⁰³One opposition organization, CONAPRO, offered a rather weak justification for the withdrawal, saying that it was sparked by the "lack of culture" demonstrated by certain government actions (JPRS 77135). The phrase "falta de cultura" (lack of culture or education) is in Nicaragua a common upper-class epithet for the poor.

¹⁰⁴Specifically, the Republicans declared that "we will support the efforts of the Nicaraguan people to establish a free and independent government." On the intended interpretation of this clause as a declaration of support for an armed overthrow, see Gutman (1988, 20).

¹⁰⁵This point is not disputed, though there is dispute over the details surrounding Salazar's death (compare B 18-11-80; Borge's remarks in B 26-11-80; and Christian 1985, 175ff).

The walk-out from the Council of State and COSEP's reaction to Salazar's activities brought strong warnings from the FSLN. Bayardo Arce stated that the FSLN's commitment to a mixed economy and political pluralism was being sorely tested¹⁰⁶.

But the bourgeoisie was not to be scared off from its alliance with the United States, as this alliance was the only secure political card it retained. The bourgeoisie might own various media outlets and enjoy the firm support of various bishops, but media could be closed and bishops could be expelled. Nevertheless, Reaganism would make the alliance with the United States more complicated for some bourgeois leaders. It would soon become evident that the Reagan administration was promoting a polarization of Nicaraguan society. This left bourgeois leaders with a difficult choice between leaving the country to join the contra leadership, or running the risk of being on the receiving end of an eventual Sandinista crack-down. One can assume that at least some of those with immobile capital must have resented this choice tremendously. Thus, while many bourgeois leaders would tie themselves ever more closely to the Reagan project (see chapter six), others would occasionally express frustration with the United States strategy¹⁰⁷.

The final break-down in relations between the Sandinistas and the organized bourgeoisie came in late 1981. In September the government declared a "state of economic

¹⁰⁶In late January 1981, Arce commented that our enemies... say that our project of pluralism, mixed economy, and freedom is interesting. But we have been very clear: this project continues only so long as there is support from all the different sectors. Can you imagine that in a situation in which we have a shortage of foreign exchange and of food, and military aggression, we can allow reactionary groups to survive, saying and doing whatever they want, that we can permit business people to rob and exploit as they wish? We will simply put an end to the problem and be done with it (1981a; see also Arce 1981b, and Borge's comments in JPRS 78200).

¹⁰⁷Thus, Alfonso Robelo suggested in late 1981 that "The Reagan Administration should keep quiet because this way they are just giving the Sandinists someone to blame for all their problems" (NYT 30-12-81). Robelo would eventually reconcile himself to United States strategy, however, and become a contra leader.

and social emergency." The state of emergency decree promised prison terms of one to three years for taking part in strikes or land seizures, disseminating "false news" on the economy, engaging in "speculation" in the market, and a variety of other offences (Decree 812)¹⁰⁸. Charges under the state of emergency would be heard by the emergency tribunals established by Decree 5 (above). The decree also suspended the application of the Law of Protection to administrative actions linked to the implementation of the state of emergency. In conjunction with the state of emergency, the government also called for a 5% cut in current government expenditures and other austerity measures, and sought to gain tighter control over the parallel market for dollars.

The government declaration of the state of emergency referred to a series of factors that have impeded the attainment of production and investment goals, such as: the decapitalizing attitude of some entrepreneurs, who have transferred their assets outside the country; the lack of state control on the parallel market for dollars, which has now grown to an intolerable level; fraud in the payment of taxes and duties; and, on the other hand, the seizure of factories, strikes, and labour indiscipline (B 10-09-81).

Interestingly, the declaration of a state of emergency enjoyed initial support from the bourgeoisie. COSEP's Enrique Dreyfus commented that "The measures are definitely positive," and added that "now we really will have social peace" (B 10 09-81; B 11-09-81)¹⁰⁹. Though one could point to previous decrees banning land seizures, it seemed that this time the government was truly determined to suppress rural and urban class tensions.

The bourgeoisie's initial acquiescence to the state of emergency raises interesting questions about its overall motives. It appeared that the bourgeoisie had found a form of

¹⁰⁸"Speculation" was a common term of opprobrium among the FSLN leaders, though it was never clearly defined. Typical of the confusion is Victor Tirado's definition: a speculator, said Tirado, is "a merchant who constantly acquires goods in order to speculate, without participating directly in production" (1986, 238). The first part of the definition is circular, the second part seems to embrace all merchants, who by definition are not "directly productive." In general, "speculation" seemed to denote commercial activity that flouted official prices or other regulations.

Aslund notes the similarly imprecise nature of the term in the USSR, where speculation "can mean any gainful private activity" (1989, 154).

¹⁰⁹The Wall Street Journal also commented that the emergency measures "are viewed as generally beneficial to business" (WSJ 15-09-81).

authoritarianism it could understand and live with. It is possible that sectors of the bourgeoisie were pointing to a possible pact with the FSLN, in which the bourgeoisie would refrain from challenging "popular power," so long as that power maintained peace and quiet in the workplace, and protected property rights¹¹⁰.

The FSLN, however, was not ready to transform itself into a neutral arbiter between the bourgeoisie and popular classes, and its actions under the state of emergency gave notice of this. The government suspended publication of La Prensa for two two-day periods for violations of the state of emergency, and Humberto Ortega made highly threatening statements¹¹¹.

In late October, COSEP published an open letter criticizing the FSLN for having abandoned the "original project" of the revolution, and claiming the FSLN was leading Nicaragua towards a "Marxist-Leninist adventure." "We are approaching," COSEP declared, "the threshold of the destruction of Nicaragua" (LP 20-10-81). The government responded by arresting most of the COSEP leaders. At the same time, it cracked down on

¹¹⁰Shortly before the state of emergency was declared, COSEP's Ismael Reyes summarized the bourgeoisie's demands:

A policy of economic austerity on the part of the government; a legal-juridical framework to guarantee private enterprise; the upholding of the principle of owner authority, to allow businessmen to manage their own businesses in order to achieve greater efficiency; the elimination of takeovers and interventions in plants, which are killing productive enterprises; the definition of a mixed economy (for no one knows what it is in Nicaragua), so that foreign investment can be promoted; the implementation of laws to encourage the repatriation of skilled labour, professionals and technicians who have left Nicaragua; the promotion of productivity, putting an end to 'labour sloth' and absenteeism; the creation of an intelligent international policy, so urgently needed; equal treatment for the private sector as for the enterprises of the People's Property Area (JPRS 79254).

¹¹¹COSEP cited Ortega as telling people to prepare lists of "potentially counterrevolutionary elements," and promised that "those who consciously or unconsciously support the plans of imperialism... if they do not take part in defence, will be the first, when the aggression comes, to be found hanging alongside all the country's roads and highways" (LP 10-20-81). See also Time (02-11-81).

the Communist Party and its union federation (B 22-10-81)¹¹². Those arrested were charged with violations of Article 4 of Decree 5 (see above). The COSEP leaders were sentenced to seven months in jail, and the arrested "ultra-leftists" to three years (B 30-10-81)¹¹³.

A long road had been travelled between late 1979, when COSEP leaders were willing to praise the 1980 economic plan, and late 1981, when those same leaders found themselves imprisoned. There is much room for debate on the particular points of inflection of this road, but the direction of the road is clear: while the FSLN had originally hoped that moral suasion, and a blend of carrots and sticks, would guarantee both the political neutrality of the bourgeoisie and its incorporation into the state-dominant economy, by 1981 the organized bourgeoisie was in clear opposition¹¹⁴.

The FSLN would confront this evolution with various strategies. It would attempt to use "economic incentives" to induce the bourgeoisie to continue to produce (see chapter six), continue to take bourgeois producers into account in formulating economic policies, and seek to reach private understandings with bourgeois elements who had remained aloof from COSEP, such as Alfredo Pellas, who owned the largest sugar mill in the country. These strategies generated tensions within the FSLN.

¹¹²It appears that communist union leaders were demanding salary increases, and were accused of fomenting unrest in factories (B 24-10-81). This simultaneous crack-down on Right and Left led Tomás Borge to comment that "political pluralism in Nicaragua is demonstrated even in the jails" (B 26-11-81).

¹¹³The COSEP leaders were freed in February 1982 (B 15-02-82), and those of the Communist Party in September 1982 (B 09-09-82).

¹¹⁴It would become common-place among FSLN supporters to argue that COSEP in fact represented only a small fraction of "private sector" output. Thus, Xabier Gorostiaga argued that COSEP members accounted for but a sixth of private sector output (1986, 58). But in analyzing the bourgeoisie as a politically active class, this argument is neither here nor there: COSEP, and the right-wing parties that joined it in opposition to the FSLN, constituted the only visible face of the organized bourgeoisie. Generally, non-COSEP bourgeois were as politically active as "potatoes in a sack," to borrow a metaphor. Unlike many observers, the FSLN itself would recognize this fact (see eg. Dirección Nacional 1991, 14; and Borge's comments in FBIS 13-04-82).

The Sandinistas also sought to strengthen links with small and medium private producers. This strategy led to the formation of the National Union of Farmers and Cattle Ranchers (UNAG), the FSLN's mass organization for private agricultural producers¹¹⁵. At the same time the FSLN sought to prevent the development of alliances between this sector and COSEP forces¹¹⁶. The fact that UNAG was formed to contest a key social sector with the bourgeoisie led the FSLN to grant it more autonomy than other mass organizations.

It was noted in chapter four that initial FSLN hostility towards small private production reflected the difficulties of incorporating that production into a socialist economy. Some FSLN leaders were now coming to see that political conditions demanded a greater acceptance of small production. This insight developed unevenly among the FSLN leaders, but from this point onwards there would be a gradual retreat from certain objectives of the state-dominant economy, in the name of preserving the revolution, in whatever shape possible. This retreat can be traced most clearly in the evolution of the agrarian reform.

E. Agrarian Reform

It was seen in the previous chapter that the FSLN approach to the land question immediately upon taking power was statist, in accordance with the overall project of a state-dominant economy. There was no explicit provision in that approach for addressing peasant land hunger. Rather, it was hoped that employment on state farms, perhaps in

¹¹⁵The FSLN had originally tried to incorporate peasants in the Rural Workers' Union (ATC). The acceptance of a separate peasant organization suggests a retreat within the FSLN from the Wheelock argument that the countryside had been, and should continue to be, substantially proletarianized.

¹¹⁶The invitation to producers to attend the founding meeting of UNAG in April 1981 indicates this aspect of the organization's political mission:

Disunited and divided, isolated in the countryside and the wilderness, we did not really know what was going on in our country. Some elements took advantage of this to confuse us, to sow fear amongst us. Initially, many of us believed the rumours that these elements spread. We were worried and disoriented, with doubts about our future (B 10-03-81).

conjunction with some colonization projects in marginal areas, would attenuate land hunger without fostering the "historical regression" of peasant production.

Peasant land seizures throughout 1980-81 were in part a response to the Sandinista strategy, a response at times encouraged even by members of the FSLN's Rural Workers' Union¹¹⁷. The government reacted to these seizures in statist fashion: land seized was generally incorporated into the APP. This had the effect, observers have noted, of discouraging land seizures without returning land to private owners towards whom peasants often felt great animosity¹¹⁸.

In early 1980, the government did try to address land hunger through a quasi-agrarian reform. Decrees 230 and 263 set maximum rents for cotton and basic grain lands, maxima that were well below market levels at the time, and authorized MIDINRA to intervene any land that was neither cultivated by the owner nor rented out¹¹⁹. It appears that some land seizures represented an attempt to enforce compliance with these decrees. An ATC official commented in July 1980 that "hundreds" of large producers were refusing to rent out land. The ATC would routinely visit the local bank to "investigate" whether an owner had taken out a loan to cultivate a plot of land that was not being rented out. If not, the ATC official said, the land was seized, and the owner was paid the

¹¹⁷Many officials were apparently unconvinced that these seizures indicated any difficulties with the statist strategy. Speaking of workers on state farms, a "land official" commented that "It took them a while to understand that they would be peons of the state rather than of a Somoza supporter, but they're now understanding that what counts is production rather than ownership" (NYT 23-07-80).

¹¹⁸Colburn (1986, 113) argues that the incorporation of land seized by peasants into the state sector discouraged further seizures because peasants generally did not see much advantage in working for the state as opposed to a private owner.

¹¹⁹Collins estimates that the new maximum rents were 85% below existing market rates (1982, 37).

legal rent for the land (B 07-07-80)¹²⁰.

On the first anniversary of the revolution, in July 1980, Daniel Ortega promised that an agrarian reform law to nationalize all idle lands and address peasant land hunger was imminent (B 20-07-80)¹²¹. Yet the decree was not issued. One observer argues that the law was delayed for technical reasons, citing a MIDINRA official's comment that "We need time to get our own act together first" (Collins 1982, 88)¹²². It is more likely that the law was delayed by concerns within the FSLN over the possible impact of an agrarian reform upon both bourgeois behaviour and the future of the state-dominant economy¹²³.

The agrarian reform law (Decree 782) was finally presented on July 19, 1981. The law has been analyzed as "anti-feudal," as opposed to anti-capitalist¹²⁴. Article 1 of the decree declared that "This Law guarantees the landed property of all those who work it productively and efficiently." The decree thus provided for expropriation of land that was idle, underused (criteria for defining which were spelt out), or abandoned. Except in

¹²⁰The ATC's argument is interesting: the land seizures which the bourgeoisie routinely denounced as arbitrary are here presented as a response to the state's inability or unwillingness to enforce its legally mandated intervention in the market. This non-enforcement of law is as "arbitrary" as the types of government action that so enraged the bourgeoisie, but it is a form of arbitrariness that is quite common in the capitalist "state of law," a form about which the bourgeoisie rarely complains.

¹²¹It appears that even Jaime Wheelock had come to accept that some form of land reform was necessary. He commented in a July 1980 speech that "If we do not obtain land from somewhere, the invasions and demonstrations will continue to occur" (JPRS 76378). In this speech, Wheelock also rejected the possibility of colonization schemes.

¹²²This was a perennial argument of MIDINRA officials. In a late 1983 interview, a "pro-peasant" activist commented to me that "If we wait for the MIDINRA bureaucrats to get 'ready' for an agrarian reform, we will wait until the next century."

¹²³Other such delays in the introduction of laws would appear to have reflected tensions within the FSLN. The New York Times reported in late 1982 that the government was preparing a law giving guarantees to foreign investors (NYT 8-12-82). The law had apparently first been prepared in 1981 (Gorostiaga 1986, 55). In early 1985, I was told by a British reporter who had just met with Vice-President Sergio Ramírez that the foreign investment law was "coming any day now." The law was finally passed in December 1987.

¹²⁴José Luís Medal commented that the law was more Schumpeterian than Marxist-Leninist in inspiration, in that it penalized, not capitalist exploitation, but the failure of land owners to fulfill their entrepreneurial function (1985, 28).

cases where the land was abandoned, no person owning less than a total of 350 hectares in the more advanced agricultural departments of the country, or less than 700 hectares elsewhere, was to be affected¹²⁵. No ceiling was placed upon the amount of land an individual could own, so long as that land was worked efficiently.

The central provisions of the law were in fact strikingly close to those of the agrarian reform law of 1963, which provided for expropriation of lands "which do not fulfill their social function because they are idle or uncultivated, or because they are not exploited in an efficient manner, or because the owner does not make use of them" (Tijerino and Palma 1978, 172). Thus, in large part the Sandinistas' agrarian reform law simply called for the enforcement of a law from the era of the Alliance for Progress. Jaime Wheelock argued that the law gave producers a double protection, because it guaranteed their right to land, and because lands distributed to peasants under the terms of the law would put an end to land seizures (B 22-07-81)¹²⁶.

Yet one section of the law undercut the guarantees to efficient production. Articles 24-26 of the decree gave MIDINRA the right to turn localities into "agricultural and agrarian reform development zones," for purposes of implementing "a plan or special project of production, of territorial re-ordering, and/or of population resettlement." Within such zones, which MIDINRA could identify at its discretion, land tenancy could be transformed notwithstanding the limits and guarantees of the rest of the law. As Jaime Wheelock commented

if we run into any of the limitations which the agrarian reform imposes, when we make the decision to trace out a territory on the map -- *and there is no limit on the territory that a zone can comprise* -- then we could make within this zone all the changes that are necessary, including changing property... be it small, family, or medium and large farms (1981b, 4; emphasis added).

Wheelock went on to note that

¹²⁵The decree considered as belonging to one person any land that had been transferred to spouses, children, or dependent siblings.

¹²⁶Even COSEP's Enrique Dreyfus expressed support for the law (Keesing's Contemporary Archives 31290).

we have an instrument that allows us in, shall we say, a discretionary manner, to make whatever reforms are necessary to transform agriculture in Nicaragua. The law is drawn up in political terms, in terms that make the law an instrument for the revolutionary alliance, for the national alliance. That is why its application is discretionary. Under the law, everything can potentially be affected... [N]othing is automatically affected, but everything is potentially affected.

The implication of the law's flexibility was suggested in late 1981 when Wheelock announced the expropriation of land in southern Nicaragua, "some of it idle, the rest of it belonging to Somocistas" (B 12-12-81)¹²⁷. As the contra war heated up, political expropriations would become an important instrument of government retaliation against suspected contra collaborators.

The agrarian reform law's provision for development zones did not provoke much commentary in articles on Nicaragua's agrarian reform. Many observers ignored the potential of Articles 24-26¹²⁸, and the articles' capacity to address localized problems of land hunger was not really demonstrated until the mid-1985 expropriation of the Bolaños lands near Managua (see chapter 7).

With respect to the distribution of expropriated land to peasants, land titles acquired under the agrarian reform law were not alienable, and were indivisible for inheritance purposes. Thus, the government sought to withdraw agrarian reform land from the land market. The law gave priority in the granting of land to peasants organized in production cooperatives, although some provision was made for the granting of titles to individual producers. Jaime Wheelock commented in late 1981 that he envisaged a Nicaraguan countryside in which 20% of land was in state hands, while 40% to 50% of the land would be in the hands of

a solid cooperative movement which transforms the broad, variegated, dispersed and primitive peasant small-hold economy into production units

¹²⁷Some of the parcels expropriated at this time were as small as 35 hectares.

¹²⁸As Wheelock noted, "Almost no-one has paid attention to this aspect of the law" (1981b). Joe Collins' summary of the agrarian reform law downplayed this aspect, stating simply that the development zones could be used "to identify the best agricultural uses of each productive area and to guide the appropriate commercial, peasant and state production to those uses" (1982, 94). Deere et al (1985) and Baumeister (1985, 67) ignore Articles 24-26 altogether.

that are modern and increasingly technified (1981c).

More than a transferral of land from the modern to the peasant pole of a "bimodal" countryside (Johnston and Kilby 1975), then, the agrarian reform law sought to adjust ownership within the advanced pole, and prevent the "regression" of land to the peasant pole¹²⁹. It was believed that cooperatives could be subjected to central control almost as completely as state farms. In fact, the cooperatives "were initially included in the material balances of the state plans" (Kaimowitz 1989, 71)¹³⁰. As Marvin Ortega notes (1989, 200), the state tried to force cooperatives

to sow the products it stipulated, to use the technology it stipulated, to sell at official prices in controlled markets, [and to adopt] the system of organization that it stipulated, independently of the wishes of cooperative members.

Ironically, Ortega notes, the cooperatives that were most successful in the long-run were those that managed to escape state verticalism (Ibid., 219).

Thus, the orientation towards cooperatives was perfectly consistent with the state-dominant economy. But this orientation would weaken the ability of the agrarian reform process to solidify the FSLN's relation with the peasantry, as shall be seen in subsequent chapters.

¹²⁹There are indications that Wheelock at this point saw the agrarian reform process as a strictly temporary retreat from his statist agricultural project. In good "developmentalist" Marxist fashion, he commented that

we cannot transform an idle *latifundia*-type *hacienda* from the seigniorial period of national independence -- which has to go through a phase of capitalization -- we cannot initially transform this into a *hacienda* belonging to the APP. What we perhaps can do there is create an agricultural base by forming a cooperative and gathering together peasants, who have been more or less dispersed -- like an archipelago -- throughout the area, and unite them on the *hacienda*, associating them in a higher form of production (1981b; emphasis added).

¹³⁰In practice," Kaimowitz adds, "the State had little capacity to ensure fulfilment of these plans."

F. Conclusion

In 1984, Jaime Wheelock would refer to 1981 as "the year in which all our forecasts collapsed" (1985a, 73). Forecasts of an easy recovery of pre-revolution levels of production; forecasts of balanced and popularly-oriented economic growth; forecasts of a multi-class alliance developing the economy under FSLN hegemony: all these were dead or dying by the end of 1981.

This is not the verdict of hindsight. The MIPLAN seminar of late 1981 listed among the problems facing the economy:

the external breach, which continues to increase; the strong dis-accumulation of the APP; the enormous external debt which now involves debt service payments in the order of 50% of the total value of exports, not including short-term debt; the failure of material production to meet targeted levels; the excessive expansion of the tertiary sectors and of the state apparatus, which is provoking an unmanageable fiscal deficit; the enormous idle capacity...

Together, these elements were "provoking a situation which is now taking on the characteristics of a crisis" (MIPLAN 1981b).

Apart from these economic factors, the United States-organized counterrevolution was getting into gear, and would dominate the attention of FSLN leaders in the coming years. As will be seen in the next chapters, the same counterrevolution that made an adjustment of economic direction so necessary, also made it politically difficult.

Chapter 6: Stagnant Economy, Paralysed Policy (1982-1984)

The 1982-1984 period was one of increasing difficulties for the FSLN, difficulties which sharpened the tension between using state power to transform Nicaragua, and merely holding on to that power. Economic growth tailed off, and significant economic imbalances developed. Government policy failed to adapt to these imbalances, a failure whose costs would be felt for the rest of the decade. The contra threat loomed as a shadow over the period, influencing relations with both the bourgeoisie and the peasantry. The FSLN sought to hinder the development of links between the bourgeoisie and the contra, while continuing to channel bourgeois demands in an economistic direction. The Sandinistas were slower, however, to recognize the threat that the contra posed for their relations with the peasantry, a perceptual lag which manifested itself in the agrarian reform strategy of this period.

The structure of this chapter parallels that of chapter five. After a brief overview of macroeconomic performance, we will examine in turn the performance of the state sector, price policy, relations with the bourgeoisie, and the agrarian reform.

A. Summary of macroeconomic performance

During the period under examination, real GDP suffered slight drops in two out of three years, increasing only in 1983 (Table A.1). Total GDP growth for the three-year period was just 2.1%, leaving 1984 real GDP at 76% of its 1977 level. This modest growth compared to a total planned growth of 14.6% (Cabezas 1986). GDP per capita dropped 7.6% in the 1982-84 period, and by 1984 stood at just 61% of its 1977 level¹. The private consumption category of GDP dropped 22% in real terms during the period, and in 1984 reached just 54% of its 1977 level. Real private consumption per capita in 1984 was only 44% of its 1977 level.

¹Thus GDP per capita had by 1984 fallen below its 1962 level. GDP per capita dropped 10% in the rest of Central America over the 1982-1984 period, and 7% in Latin America as a whole.

Economic performance in 1982 was affected by a combination of flooding in May and drought later in the year. Estimates of the total cost of these events make it comparable to the cost of the 1977-79 insurrection, but these estimates are subject to a large margin of error². Towards the end of the period under consideration, the contra war came to have a significant impact upon overall economic performance. The Nicaraguan Government asserted that during 1984 there was \$24.4 million in physical damage and \$159.6 million in lost production as a direct result of the war (Fitzgerald 1985). Much of the lost production was destined for export, including some \$69 million of coffee in war zones that could not be harvested (ECLAC 1984). Government advisor E.V.K. Fitzgerald estimates that the war reduced primary production in 1984 by 11%, and had a 10% impact on secondary production, through the effect of reduced foreign exchange on the import-dependent industrial sector. These factors added up to a 5% reduction of the GDP (Fitzgerald 1985).

External Performance. Nicaragua suffered a worrisome drop in exports during the 1982-84 period. While the country had exported \$508 million during 1981, average annual exports in 1982-84 were just \$407 million, and 1984 exports were under \$400 million for the first time since 1975 (Table A.2). Stagnant export prices contributed in part to this outcome: according to SPP data, the export price index for the 1982-84 period was 9% below its 1981 level. But this was clearly not the main problem: in 1984, the export price index was in fact 31% above its 1978 level, but the total value of exports had dropped 40%. As noted in the previous chapter, industrial exports had dropped owing to the loss of markets in Central America. But there had also been significant drops in the volume of Nicaragua's traditional agro-exports. The volume of cotton, beef and sea-food exports

²Sergio Ramírez attributed a cost of \$347 million to the May floods (FBIS 21-09-82). ECLAC put the combined cost of the flood and drought at \$519 million (cited in Arana et al 1987, 14). The main problem with these estimates, and with similar estimates concerning the dollar costs of the war, lies in the translation of córdoba costs into dollars. I believe that the government tended to translate córdoba costs of such events into dollars at the official rate of exchange, thus inflating dollar costs. Alaniz (1985, 229) offers a critique of the 1982 cost calculations.

dropped 35%, 74% and 75%, respectively, between 1978 and 1984 (INEC 1984; BCN 1978).

While these volume declines partly reflected endogenous factors³, exogenous factors were also at work. Throughout Central America, for example, high cotton prices during the 1970s had brought marginal land into cotton use. This land was withdrawn as the price relation between cotton inputs and cotton itself deteriorated in the early 1980s. Thus, the area of land sown with cotton in Guatemala dropped 69% between 1978/79 and 1983/84, 67% in El Salvador, and 30% in Nicaragua (B 28-11-83)⁴.

The drop in exports in the 1982-1984 period would have led to a sharp increase in the trade deficit had not the government imposed an import austerity programme in 1982, which led to a \$223 million drop in imports (CIF). Consumer goods imports declined 34% between 1981 and 1982. The industrial sector also felt the effects of import compression: raw material imports for the sector were cut back by 29% (Spoor 1987).

This reduction in imports held the trade and current account deficits close to their 1981 levels, but this was little cause for celebration. The 1982-84 period saw an average annual current account deficit of \$640 million, much higher than average annual exports (Table A.2). Nicaragua could finance such deficits owing to continued high levels of external financing. This financing, and the need to renegotiate earlier loans⁵, led to a 70% increase in the external debt during the 1982-84 period (Table A.2). FSLN leaders continued to express concern over the implications of the rising external debt⁶, but there was no willingness to face the economic and political costs of sharply reducing the trade deficit, even assuming this to be possible.

³The impact of the exchange rate, in particular, will be examined below.

⁴FAO data cited by Gilbert (1990, 95) indicate even sharper declines in cotton land sown throughout Central America. According to this source, land sown declined by 58% in Guatemala and 89% in El Salvador between 1977 and 1984.

⁵During 1983, Nicaragua was able to pay only \$5 million of the \$90 million that fell due on its private bank debt, and renegotiated the rest (Figueroa 1983).

⁶See Bayardo Arce's remarks in (B 07-09-83).

Though high external financing continued, the nature of that financing was shifting: the United States Administration was urging allies such as the EEC not to lend to Nicaragua, and politicized multilateral lending institutions such as the World Bank and the Inter-American Development Bank [IDB]. A World Bank document leaked in 1982, while recognizing that Nicaragua had "handled its external obligations responsibly," stated that the continuance of current levels of aid to Nicaragua would be "unfeasible" owing to "increasing constraints and political limitations on the Bank" (cited in South, November 1982). In January 1985, the United States government went so far as to threaten to paralyze the operations of the IDB if a \$60 million loan to Nicaragua was approved (NYT 21-01-85).

These efforts of the Reagan Administration bore much fruit. Gradually, Western bilateral aid would come to be overshadowed by credit from CMEA countries⁷. In addition, the Nicaraguan government claimed that nearly \$400 million in loans from multilateral institutions had been blocked for political reasons after having met technical criteria (Fitzgerald 1985, 5). Thus, multilateral credit's share of total credit to Nicaragua declined from 78% in 1979 to 17% in 1982 (Figueroa 1983), and continued to decline thereafter. This decline made Nicaragua more dependent on lines of credit and aid destined for particular projects, gradually creating a situation in which the country could import new capital goods, but could not afford the spare parts imports to maintain old ones.

Fiscal Balance. In 1982, the fiscal deficit crept up from its 1980-81 level of 10%, reaching 14% of GDP (Table A.4). In 1983, the deficit exploded, reaching 30% of GDP. This occurred despite an increase in the tax burden, from 19% of GDP in 1981 to 26% in 1983. Government spending rose from 33% of GDP in 1981 to 61% in 1983. Though the deficit fell to 25% of GDP in 1984, it had come to represent a major factor of

⁷Bulmer-Thomas (1987, 381) points out, however, that in the first five years of the revolution, Mexico granted Nicaragua an estimated \$500 million in aid, more than any other country. Later in the decade, Mexico apparently came under pressure from its own creditors to reduce its support for Nicaragua (see NYT 20-06-87).

disequilibrium in the economy.

Various factors account for the explosion of the fiscal deficit. In 1984, defence spending accounted for 23% of total government spending. This represented 14% of GDP, up from just 3.5% in 1980, and accounts for the bulk of the deficit increase. Government subsidies on basic foods and transport are also cited as a factor in the fiscal crisis, though total subsidies represented under 7% of total government spending in 1983, down from 9% in 1982 (B 09-01-84).

Apart from the war, the most significant factor in the expansion of the fiscal deficit was the increased financing of investment projects from the budget. The FSLN had decided to maintain a high overall rate of accumulation despite a drop-off in private investment. Through the 1982-84 period, the ratio of investment to GDP remained at 20% (Spoor 1987, 8). Arguello et al (1987) estimate that the public sector accounted for three-quarters of fixed investment from 1980 to 1985.

From 1982 to 1983, capital spending's share of total government expenditures doubled, as work began on several major projects (Arguello et al 1987, 31). While government capital spending had averaged 7% of GDP in the 1970-77 period, it represented 23% in 1983 and 17% in 1984 (ECLAC 1985). Apart from their high immediate costs, the investment decisions made during this period implied significant future costs for the budget, as the government locked itself into a series of large projects with long maturation periods. These projects represented one of the most serious obstacles to government attempts to restore economic equilibrium from 1985 onwards⁸.

By 1984, the tax burden had reached 30%, three times its 1970-77 average. Nearly four-fifths of tax receipts came from indirect taxes. Though a variety of new tax measures had increased direct taxes somewhat, there were concerns that such increases merely encouraged economic agents to "informalize" their activities in order to escape the tax net. There was little hope that the fiscal deficit could be reduced through higher taxes

⁸The nature of these investment projects will be examined further, below.

alone. Hence it was clear that government spending would somehow have to be reined in. Much of post-1985 economic policy would consist of repeated attempts to do just that.

Monetary performance and inflation. The ratio of M1 to GDP was 24% in 1982, close to its 1980-81 level (Table A.5). But in 1983 the ratio rose to 35%, and increased again in 1984 to 46%. This was, as Bulmer-Thomas (1987, 253) notes, "a sure sign of short-run, unwanted accumulation of money balances on the part of the public." December-to-December inflation, as measured by the CPI, crept slowly upwards, measuring 22%, 33% and 50% for 1982, 1983, and 1984, respectively. As unofficial-market prices increasingly diverged from official ones, the CPI became increasingly suspect.

The fiscal deficit was responsible for much of this increase. But other factors also played a role. One of these, so-called "exchange rate loss," will be discussed below. Another factor was credit policy. The previous chapter noted that the new government rapidly increased the provision of credit to the peasantry, for "alliance-building" reasons. Credit to small agricultural producers, which represented just 4% of agricultural bank credit in 1978, accounted for 23% by 1982 (B 19-12-83). In addition, credit for all producers covered up to 100% of officially-recognized working costs⁹, and the APP in particular was making significant demands on the banking system. As a result of these factors, the ratio between bank credit outstanding and production in the agricultural and industrial sectors rose from 28% in 1977 to 48% in 1984 (OEDEC 1977; INEC 1984).

Two elements intensified the expansionary impact of credit policy. As was noted, the granting of credit departed from traditional financial principles. Not surprisingly, therefore, much credit was not recovered. Many state companies were unable or unwilling to repay their loans, as were many peasants. In 1983 in particular, the government was driven to forgive much of the peasant debt, in order to address the

⁹Private producers pointed out that bank estimates of working costs presumed that producers could buy all their inputs at official prices, which was not true (Colburn and De Franco 1985, 286).

effects of contra propaganda, which was telling peasants the Sandinistas would use debts as a pretext for seizing their land (B 19-06-83). This measure cost the financial system C\$360 million (B 06-09-83), a little under 2% of its productive credit outstanding. Overall, by 1984 21% of production loans were frozen, compared to 6% in 1977 (INEC 1984, 52; BCN 1978, 41). Since the government chose to continue lending, even to sectors that were having difficulty repaying previous loans, the banking system, rather than rolling over resources, found itself creating new purchasing power as it issued new credit.

While government leaders frequently spoke of the expansionary impact of bad debts, less attention was paid to a second expansionary element: negative real interest rates¹⁰. When interest rates fail to keep pace with inflation, the banking system collects less real purchasing power when loans are repaid (presuming they are repaid), than it originally issued. Once again, the banking system cannot merely roll over purchasing power when it extends new credit; rather, it must create new purchasing power. This problem was not addressed until mid-1988, and we will see in chapter eight that the manner in which the government addressed the problem carried a significant political cost.

B. State sector organization

In contrast to the great fanfare that accompanied the publication of the 1980 economic plan, and to a lesser extent that of 1981, the planning process became invisible during the 1982-1984 period. The National Directorate did not approve the 1982 economic plan, and the 1983 plan, though approved, was classified as confidential. Subsequent plans enjoyed only limited circulation. In 1984, the government established the "Economic Council," made up of various cabinet members. The Council was to be the "highest organ of consultation" of the government junta on economic matters (Decree 1359), and MIPLAN's status seemed to be downgraded to that of a "secretariat" for the

¹⁰In mid-1983, interest rates to producers ranged from 8% on long-term loans for the cattle sector, to 18% on short-term loans for industry (B 20-05-83). As has been noted, inflation for 1983 was 33%. Nominal interest rates would rise little in subsequent years, despite the rapid acceleration of inflation.

Council. Observers noted that the junta was increasingly relying on specialists who had been affiliated with the Ortegas' insurrectional tendency (JPRS LAM-84-079). These specialists would assume a more visible role in establishing economic policy from 1985 on.

The disappearance of planning from public view corresponded to MIPLAN's loss of prestige within the FSLN. In August 1983, Daniel Ortega criticized the planners for consistently setting unrealistic growth targets, the first such public criticism that I know of (B 14-08-83)¹¹. In September 1983, an "economic cell" was quietly set up to examine the general direction of economic policy. The cell, most of whose members were skeptical of MIPLAN and its conception of planning, would help formulate the new economic policy adopted in early 1985 (Martínez 1990, 123).

Though FSLN leaders were increasingly aware of the fact that intensified military aggression and the state of the economy in general "made it practically impossible to plan anything" (Cabiezas 1986, 14), it is important to note that they continued to endorse certain policies typical of a catch-up socialist economy. Daniel Ortega, for example, endorsed the main objectives of Plan 83, which included the "maximization" of material production, and the intensification of state control of the circulation of goods (MIPLAN 1983; Ortega 1983). MIPLAN targets continued to be set in splendid isolation from the economic realities facing most Nicaraguans. Thus, the 1984 economic plan called for a 27% real increase in investment spending, and a 0.1% drop in private consumption, despite the sharp fall in the latter category since 1977 (MIPLAN 1984a, 155, 177).

1. MIDINRA's bid for control

MIPLAN's bid for control over the economy was blocked above all by Jaime Wheelock's MIDINRA, which had its own views on the proper organization of the state.

¹¹Several years later, Ortega would comment to a meeting of SPP officials that the SPP had added "competence" to the "enthusiasm" that had characterized Ruiz' MIPLAN (1987d). The implication was that MIPLAN had been incompetent.

In a private 1983 interview with a group of visiting Canadians, even pro-planner Tomás Borge indicated his impatience with the MIPLAN technocrats (rpt. Borge 1985c, 177).

These views were clearly articulated in a 1982 document from CIERA, MIDINRA's research centre (rpt. CIERA 1983a). CIERA started from a frankly "productionist" premise:

Whereas under capitalism those areas of state activity that have to do with circulation (sales, financing) are privileged... in Nicaragua today, as in all systems that are struggling to free themselves from capitalism, social emphasis should restore material production and reproduction to its true status (Ibid., 11).

This productionist orientation, however, was being threatened by "technocratism (expressed as institutional feudalism)":

When the revolutionary government set forth the intent to direct social services in accordance with the needs of production, it was moving in the right direction. However, institutions reconstructed on the base of preceding state structures are developing particularistic features that distort that clear vision; they are beginning to assume an autonomous existence and are attempting to impose their own objectives on the whole of the state apparatus. Unless policies are spelled out on the basis of and in conjunction with the growth of basically agricultural production, the effectiveness of the state will be reduced (Ibid.)

Thus, like MIPLAN, MIDINRA was advocating a centralized, hierarchical state structure.

The difference between the two visions, of course, was the question of which institution should occupy the apex of the state pyramid. CIERA argued that

the revolutionizing of our economy entails in great measure the revolutionizing of the nation's agriculture. This responsibility falls essentially on the shoulders of MIDINRA (Ibid., 14).

The CIERA document went on to lament the fact that

Although it is responsible for the agricultural sector, MIDINRA is unable to embrace the entirety of the instruments and means of action that define an agricultural policy (Ibid., 12).

Taken together, the foregoing quotes indicate a clear desire for control over many elements of the state: MIDINRA should be able to influence policies relating to "circulation" (e.g. the banking system, and the internal and external trade ministries), and it should be able to curb the "autonomous existence" of the social ministries.

These goals were to a large degree realized. MIDINRA, for example, was able to place representatives on the banks' loan approval committees. These representatives, argues Biondi-Morra (1988, 354f), were often the most powerful members of the

committees. One thus found a MIDINRA-dominated committee approving loans to... MIDINRA. This penetration of the banking system was a key factor in the spread of a productionist orientation throughout the state.

MIDINRA's bid for power may have been more successful than that of MIPLAN because of the attractiveness of MIDINRA's long-term vision. While MIPLAN's vision of detailed central planning struck many Sandinistas as quixotic, MIDINRA's vision had the virtue of at least apparent plausibility. This vision was articulated by MIDINRA head Jaime Wheelock:

The revolution is beginning to develop a new economic model, based on the search for a new role in the international division of labour. We can continue to be producers of consumer goods, but it is not the same thing to produce unprocessed consumer goods as it is to produce processed goods. We wish to be an industrial country, that sells manufactured goods, by processing our own agricultural goods, packaging our food, making furniture out of our wood... This is the profound national sense of the revolution (1983, 110; elision in original).

Apart from promoting the processing of agricultural goods, the MIDINRA vision called for a significant modernization of agriculture. The country faced a choice, Wheelock argued:

do we take as our principal path the use of technical assistance, land, credit, etc. to affect the universe of 200,000 *manzanas* of traditional [maize] production, which now yields eight to ten quintals per *manzana*? Or do we follow the path of giving priority to compact high-technology projects? (1985a, 60)

Yet Wheelock believed that this choice was no choice at all: the high-technology path was the "only viable one" (ibid), the only way to produce food and export products simultaneously (1983, 94), the only way to get milk to Nicaraguan children (1984b).

This view would exercise a tremendous influence on Nicaraguan economic strategy, yet at no time did Wheelock ever feel compelled to justify his position. Wheelock was aware that the path chosen involved significant difficulties. In a 1984 interview, Wheelock noted that

Intensive technology involves, because of the need for chemicals, more dependence upon imported inputs; to some extent, sowing three times a year can intensively deplete the natural resources of the land and can hurt the soils. There is not the sufficient technical force in the country to

support the vigorous level of growth that is planned (H. Ortega et al 1986, 246).

Yet a moment later Wheelock repeated that this path was the "only viable one."

Part of his belief that the high-technology path was viable stemmed from a remarkable view of the workings of international capitalism:

Q: Where will the money come from?

A: From the world crisis... The generalization [of the crisis] has left equipment companies in Europe, North America and even in Latin America with large inventories that they cannot sell. And so there is a tendency on the part of states, instead of subsidizing these companies, to help them economically by granting them lines of credit. So Nicaragua... has sought these lines of credit for capital goods (Ibid., 150).

This assessment was offered when it was quite clear that Nicaragua's access to lines of credit from the developed capitalist countries was disappearing.

Wheelock was, in short, a "techno-utopian": advanced technology could solve Nicaragua's main development problems, would descend on the country at little or no cost, and had no side-effects worth considering¹².

This vision began to be implemented in a great investment push during the 1982-1984 period. The push reflected Wheelock's advocacy of agro-industry and agricultural modernization. A survey of Nicaragua's main investment projects in the 1979-1985 period indicates that the agricultural and agro-industrial sectors accounted for over 70% of the total value of these projects, ten times the share of the industrial sector (Table C.10).

Apart from reflecting Wheelock's vision, however, these large investment projects reflected typical features of catch-up socialism. Arguello et al (1987, 31) noted that feasibility studies had not been completed for the majority of the projects launched

¹²This seems an odd position for one who, prior to 1979, had been the leader of the FSLN's "ultra-orthodox" proletarian faction. But the underlying consistency in Wheelock's positions is a strong attachment to modernization. When he was clearly a Marxist, Wheelock was located at the "developmentalist" pole of Marxism. His analysis of the decomposition of the Nicaraguan peasantry (1978) was thus a presentation of what he thought had happened, but also what he thought should happen. Wheelock would state explicitly after the triumph that an agrarian reform that reversed the process of "proletarianization" of the peasantry would constitute a historical regression (1981c).

during this period. A high government official told me in 1987 that many of those making investment decisions in the state simply did not believe in cost-benefit analyses of any stripe. An atmosphere in which projects were promoted "at any cost"¹³ was prevalent during this period¹⁴. The logic of decision-making seemed to be based on the need to generate production that was easily captured by the state sector¹⁵.

A project that reveals much of the thinking underlying the decisions of MIDINRA strategists was the TIMAL sugar refinery. The refinery was the largest single agricultural investment project, and MIDINRA officials claimed it would be the largest refinery in the world. Financed by loans from Cuba and as many as eight other countries, the project involved building a twelve square kilometre artificial lake. Water from the lake would travel several miles in a cement canal (which at certain points would be elevated), to be used in centre-pivot irrigation systems. Sugar would be harvested mechanically. The bagasse would generate power, making the refinery self-sufficient in energy, and even allowing it to contribute electricity to the national grid.

The choice of centre-pivot irrigation was revealing. Hillel (1987) notes that self-propelled sprinkler systems in general "are the most technologically advanced" and "cannot easily be scaled down to the size of the individual farming units prevalent in developing

¹³"Cueste lo que cueste."

¹⁴This attitude is captured nicely in a book by Carlos Alemán, who was my supervisor in early 1984. Alemán worked on a dam being built near Managua to supply the TIMAL sugar project (see below). Alemán's book (1985) is a rhapsody of praise for those who had the vision to build the dam. At one point he excoriates the bureaucrats who had the temerity to question such profane matters as cost overruns and double or triple shifts:

Suddenly it seemed as if, from the heart of the bureaucracy another dam had arisen, a dam of paper that blocked the flow of money...

In the end, Alemán recounts, the people of "vision" overcame the unbelievers, and the dam was finished.

The dam, incidentally, displaced thousands of peasants, whom the government sought to move into new villages. "Some people say we have destroyed their culture," Alemán commented to me, "but the only culture they ever had was a culture of misery."

¹⁵The Chiltepe milk project near Managua provides a good example of this logic: by all accounts, costs per litre were much higher than anywhere else in the country, but MIDINRA considered the project a great success, as it provided milk that was immediately transferred to the state dairies in Managua, thus obviating the need to chase after privately-produced milk.

countries." Thus this choice "locks in" large-scale production units.

Hillel goes on to note:

The savings in labour costs resulting from mechanization and automation can quickly be offset and even exceeded by losses due to yield decline caused by failure of the system during critical periods in the growing season. The danger of system failure increases with technological complexity and requirements of expertise and quick availability of spare parts. For example, centre-pivot systems are beautifully efficient as long as they operate perfectly, but without expert maintenance, and spare parts, they are prone to break down. A malfunction in any one of numerous parts can soon transform a working marvel of technology into a standing monument of inefficiency (Ibid.; emphasis added).

This analysis indicates that in choosing centre-pivot irrigation, MIDINRA was following a "best-case" optimizing strategy, that is, choosing a path thought to be optimal, given a projected overall economic scenario in which everything goes well. The technology required secure supplies of energy, maintenance skills, and spare parts, and by the late 1980s Nicaragua was short on all three. Thus, "best-case" optimizing was not a wise strategy, particularly since investment decisions were being made even as it was clear that the contra war would intensify.

The level of mechanization of TIMAL and other MIDINRA projects suggests that MIDINRA's operative assumption was that labour would be a scarce resource in Nicaragua for some time to come. War, emigration, and salary controls did generate a wage-labour shortage in the mid-1980s. Yet this shortage should have been considered conjunctural, not made the basis of a long-term technological strategy. Nicaragua's GDP had dropped substantially since 1977, while its rate of population growth was the second highest in Latin America. These are not conditions that make for a long-term labour shortage. Predictably, as the contra war wound down, Nicaragua was faced with severe unemployment¹⁶.

¹⁶Wheelock defended the mechanization strategy with the argument that the urban un- and under-employed considered agricultural labour "degrading and servile" (1983, 95), and could thus not be used to address the seasonal rural labour shortage. While this may be true, it is still necessary to ask whether efforts to change the conditions underlying this view of agricultural labour would not have been simpler than the massive importation of agricultural machinery.

In addition, two of the conditions that generated a labour shortage, emigration and salaries, created an even more severe shortage of skilled labour, necessary for the success of a high-technology strategy¹⁷. It was reported in early 1986 that 75 out of 300 technicians trained in Cuba for the TIMAL project had quit, citing frustrations over wages and a lack of possibilities for advancement (B 08-01-86). Twenty per cent of construction workers on the project had also left, most of them heading into the commercial sector.

A final question with respect to the choice of the massive use of high-technology irrigation systems is whether MIDINRA was fully aware of the possible long-term effects of this choice. Carruthers (1985) notes that the "FAO estimates that 50% of the world's irrigated land is salinized to the extent of affecting productivity." Because proper drainage systems to avoid salination require a high initial investment, and because the effects of salination are slow to become apparent, irrigation schemes may be particularly dangerous where decision-makers are myopic. Biswas (1985) notes another consequence of myopia for irrigation technology. Both aid agencies and local governments find the ongoing operation and repair of irrigation equipment "less glamorous" than launching new projects. As a result, many systems operate after ten years at 20%-40% efficiency¹⁸.

Such myopia was pronounced within MIDINRA¹⁹, making the irrigation strategy pursued particularly hazardous for the future. That MIDINRA was not taking into account the ramifications of irrigation is indicated by the very speed with which it hoped to increase the amount of irrigated land, which was projected to jump 129% from 1983 to

¹⁷The emigration of specialists will be examined in the next chapter.

¹⁸Measured as the proportion of water entering the irrigation system that finally reaches the fields. Such inefficiency, therefore, can make irrigation systems up to five times as much of a drain on the water supply as necessary.

¹⁹It is interesting that after Wheelock notes the economic, ecological and organizational problems of his strategy (above), his answer ends. He as much as acknowledges that MIDINRA will proceed with its strategy despite its long-run consequences.

A Barricada article recognized "some problems" with irrigation, but the only problem highlighted was "the ignorance of the cooperative members involved... concerning how to handle a crop under irrigation" (rpt. JPRS LAM-84-110).

1990 (B 05-12-83).

One project that symbolized MIDINRA's willingness to marginalize peasant production was the "Contingency Plan" for maize production, launched in 1983. The principal peasant crop would now be grown on irrigated cotton land, both publicly and privately owned, on the Pacific Coast between cotton seasons. The Plan would require over \$18 million in imported capital goods, mostly the same sophisticated irrigation equipment used in the TIMAL project.

The plan sought to respond to the perceived failings of peasant production, to the long-term goal of moving basic grain production out of the central highlands, and to the intensification of military conflict in those highlands. In the first year, MIDINRA officials projected yields of 93 quintals of maize per hectare; actual yields were 50 QQ/hc. (Zalkin, 1987). Undeterred, they projected maize and sorghum yields of 101 QQ/hc. for 1984 (B 24-03-84). Actual yields appear to have been closer to 57 QQ/hc. (Spoor 1987).

Though yields were lower than expected, they were much higher than the national average, and the Contingency Plan began to make a substantial contribution to national maize production. At what cost? MIDINRA noted that costs of production were higher than the norm (MIDINRA 1984), and at a more realistic exchange rate the cost gap between MIDINRA's import-intensive maize production and traditional production would have been even wider.

Defenders of the strategy argued that it was essential to increase grain production "whatever the cost." This is a weak argument, as a strategy of promoting peasant maize production "whatever the cost," instead of lowering real producer prices, might have produced more favourable results at lower cost than the Contingency Plan.

It is also argued that the strategy cannot be evaluated merely in economic terms, since the concentration of production outside the central highlands was a military necessity. While it is true that the war was interfering with highland agricultural production, it is also true that the focusing of human and material resources on the Contingency Plan may have intensified the alienation of small producers and increased

their cooperation with the contra²⁰. Indeed, while Contingency Plan maize output was increasing, peasant maize and bean output was dropping, leading to a net decrease in production of the two main food crops (Spoor, 1987). Import-intensive production was replacing low-import production²¹.

In conclusion, the viability of MIDINRA's development vision was more apparent than real. The strategy ignored the foreign exchange constraint on the Nicaraguan economy, naively assuming that foreign donors would indefinitely finance the low-cost transfer of capital goods; it was informed by a "techno-utopianism" that ignored Nicaragua's concrete technological needs; and it ignored the political implications of economic strategy, in particular the implication for relations with the peasantry. As the utopian nature of the MIDINRA project became clearer, the government sought to modify its development strategy. Nevertheless, the very scale of the projects initiated in the 1982-1984 period, and the predictable delays in the implementation of these projects, meant that MIDINRA's development vision dominated government investment for the rest of the decade.

2. Bureaucratism revisited

The greater involvement of the state in the economy during the 1982-1984 period rendered problems of administration ever more visible. Attempted cures for these problems were often worse than the disease. Thus, to avoid "sectorialism" and "anarchy" in the assignment of foreign exchange, a complex mechanism was established in which all requests for imports had to pass through reviews and two commissions, one of which included a member of the government junta, the Minister of External Trade, and the head of the Central Bank (Maxfield and Stahler-Sholk 1985, 255). Such a structure ensured

²⁰The peasant-contra relation will be examined further, below.

²¹Partly as a result, while overall agricultural and livestock production in 1985 was down 10.6% relative to 1983, imports for the agricultural sector were up 33.9% (SPP 1986b; INEC 1985).

that "everyone" was consulted on import decisions, but also led to long delays in foreign-exchange allocations. A 1987 analysis reported delays of up to two years between the time imports were requested and their final approval (Pizarro 1987, 18). Uncharacteristically, MIPLAN argued for a decentralization of import decisions (1984a, 107), but in a situation in which foreign exchange was increasingly scarce, the government chose to maintain tight control.

FSLN leaders continued to attribute problems in the state apparatus to the problem of "bureaucratism," more than to the overall project of a state-dominant economy. Typically, problems in the state were seen as left-overs from the *ancien régime*²². This analysis was not merely rhetorical, and had real consequences. The view that problems within the state reflected the political or moral deficiencies of bureaucrats carrying within themselves the spirit of the Somoza regime fostered the belief that greater direct involvement of the FSLN in the day-to-day affairs of government would cure or at least attenuate bureaucratism. While the party had been active within the state since July 1979, party-state links were intensified with the regionalization of some government activities from 1982 on (B 20-07-82)²³. By 1985, the same individuals headed both the party and the state apparatus at the regional level. Though aimed at "Sandinizing" the state, some observers feel the intensified party-state link served instead to bureaucratize the party. Party cadre found an increasing portion of their time occupied by governmental tasks, which role often brought them into conflicts with the FSLN's own mass organizations (Bernales 1985, 154).

²²Thus, the January 1982 meeting of the Sandinista Assembly numbered among the residual "vices of somocism": "inefficiency, over-staffing, bureaucraticism, administrative corruption, abuse of the assets of the Revolutionary State, [and] waste in public institutions" (B 01-02-82). Jaime Wheelock decried the fact that "changes in society are proceeding more quickly than the formation of new state officials, and there is the bureaucratism of those who do not yet understand that their duty, and the *raison d'être* of their jobs, is to resolve the problems of the people" (1985a, 114).

²³On regionalization, see Wilson (1987) and Bernales (1985).

3. Behaviour of state firms

During this period, the output-maximizing orientation of state firms continued, to the detriment of their possible contribution to state accumulation²⁴. The view of Henry Ruiz is typical of the period: "we are interested in getting goods to the people, not in profits" (JPRS LAM-84-131). This orientation, along with an accommodating financial system, naturally gave the state sector greater productive dynamism than other economic sectors. Jaime Wheelock stated in 1986 that the output of state farms rose from 16% of national agricultural output in 1980, to 26% in the 1984-85 cycle, despite a reduction in the size of state holdings. He added that this proved the state farms more "efficient" than the Somoza farms out of which they had been formed, since the latter had only accounted for 16% of agricultural output (Wheelock 1986c, 42). The inference is interesting, as it presumes that "efficiency" is measured only in terms of yields per unit of land, and by extension, that land is the only scarce factor of production.

This conception of "efficiency" predominates in planning documents prepared by both MIDINRA and MIPLAN: table after table presents targets and results for total output and yield levels, yet one is hard pressed to find any mention -- much less actual targets -- of efficiency in the use of other factors of production, such as labour and imported inputs. This silence is linked to the lack of mention of financial performance. It is thus not surprising that, from 1979 to 1985, only four of 102 state farm complexes were profitable (Colburn 1990, 24). Far from being the "engine of accumulation," as the 1980 economic plan had envisioned, the APP was becoming an increasingly costly burden

²⁴This is not to say that output-maximization was the only goal of state firms, merely that it overshadowed financial goals. Colburn (1990, 117) notes that, as the war intensified, state firms in war zones found themselves responsible for housing and feeding soldiers, maintaining a militia, etc. Jaime Wheelock noted that

Part of what the state companies register as variable costs, as salaries, goes to defence. Half of the workers in the state farms of Region VI [Jinotega-Matagalpa] have been mobilized for a year, and this 50% is still receiving its entire salary (1985a, 32).

This military dimension of the state farms, joined with the fact that they constituted a prime target of contra attacks, led many rural workers to prefer employment on private farms.

upon the state: by 1984, transfers from the government to state firms reached 7% of GDP (Kleiterp 1989, 97)²⁵.

These poor financial results, it should be noted, occurred in a world of topsy-turvy prices. State firms, much more than their private counterparts, were constrained to respect official prices, which were diverging ever-more rapidly from market-clearing prices²⁶. Thus it would be unfair to cite financial losses as proof that state firms were inefficient in some overall sense. The argument is rather that state firms were not even oriented towards financial efficiency. In the words of a state manager cited by Biondi-Morra (1988, 350),

Eventually management had to accept the fact that the rules of the game had changed, and that to have a company in a state of virtual bankruptcy no longer mattered. Once this conclusion was reached, nobody in the company had any more qualms about borrowing.

State firms were thus exhibiting the disdain for the profit motive typical of firms in a socialist economy.

C. Price policy

The previous chapter noted that the government was reluctant to supplement its policy of setting official prices and setting up "secure channels" with actual rationing. In late 1981, however, Internal Trade Minister Dionisio Marengo commented that the setting of official prices was having little or no effect on actual prices. The government was faced with two alternatives, Marengo stated: either saturate the market with goods, to bring market clearing prices down to their official level, or implement rationing (B 11-06-81). The first option being impossible, the government chose the second.

²⁵Alejandro Martínez Cuenca later commented that concerns over APP inefficiency expressed in the cabinet were repeatedly met with the response that "That is a political matter" (1990, 127).

²⁶Thus, Biondi-Morra (1988, 161f) argues that a recalculation of state farm financial results using a shadow exchange rate yields profits instead of losses. Such recalculation can cut both ways however. I will show in the next chapter that recalculation of textile sector financial results using shadow exchange rates, interest rates, and salaries, transforms profits into losses.

Rationing may originally have been seen as a means to regulate the consumption of exportables: the first affected product was sugar, rationing of which was gradually developed in January and February 1982. But rice was added to the "consumer card" in late 1982 (B 13-10-82), and laundry soap and cooking oil in early 1983 (B 23-03-83). In addition, gasoline rationing was imposed in August 1982, with private vehicles being limited to twenty gallons per month (B 01-08-82). As each product joined the rationing scheme, the state nationalized its distribution, making it illegal for private traders to market the product.

There appear to have been heated debates within the government around the decision to begin rationing. Then-Minister of External Trade Alejandro Martínez would later blame foreign advisor E.V.K. Fitzgerald for the decision, claiming Fitzgerald, one of Daniel Ortega's most trusted advisors throughout the 1980s, treated the Nicaraguan revolution "as an experiment" (Martínez 1990, 106). If Fitzgerald was influential in the decision, he had much logic on his side. Once the government had decided to get key products to consumers at controlled prices, something like rationing was inevitable: to sell official products without such control (as was in fact done for many products deemed non-essential) simply handed a source of accumulation to the "resellers" who lined up to buy products at official prices in order to resell them in the unofficial market²⁷.

During the time I lived in Nicaragua, opinion on rationing seemed divided. Some did complain that it limited their freedom to purchase various products, but many Nicaraguans expressed to me the view that the rationing scheme was fundamentally fair, and that it ensured that everyone received a certain supply of key products at affordable prices. Opposition rhetoric notwithstanding, I do not believe the FSLN paid a serious political price for the rationing per se, so long as the "secure channels" continued to

²⁷Barricada complained that the re-sellers were "like army ants, capable of cleaning out any supermarket in the country in less than twenty-four hours" (B 13-06-82).

deliver the goods²⁸. Nationalizing the distribution of some products, however, suspends the capitalist "naturalness" of supply problems, just as official prices suspend the "naturalness" of capitalist prices (see chapter four, above). Rationing thus increased the political impact of reductions in the supply of consumption goods.

There also appears to have been debate on how far to extend the Ministry of Internal Trade's (MICOIN) powers. Barricada reported in mid-1982 that a law had been drafted giving MICOIN "total control of Nicaraguan commerce" (B 04-06-82), but in fact the Ministry's powers were not substantially beefed up until mid-1984.

In comparison with subsequent years, the unofficial market had a relatively low profile in 1982. Margins between official and free market prices were relatively low (Table C.11). The spread between the unofficial-market rate and the highest legal rate of the dollar (the "parallel" rate), however, increased throughout 1982 from 1.4:1 to 2.8:1 at year's end (Table C.12). The unofficial-market dollar rate governed the price of a large number of imported products in the unofficial market. By the end of 1983, the exchange rate spread would reach 6:1, and a year after that it had hit an astonishing 16:1.

Much more public alarm was expressed over the unofficial market in 1983. Not only were price spreads increasing, but increasing numbers of people were shifting from formal sector work to unofficial market activities regarded by the government as socially noxious. Though the analysis of the unofficial market continued to be highly politicized, the phenomenon was in large part the result of government policies: the increasing attraction of unofficial-market activities reflected a combination of ever-greater profits to be made there, as the gap between official and market-clearing prices widened, and the

²⁸Interestingly, La Prensa commented that the decision to ration sugar was "good because it enables all the population to obtain sugar." The paper, however, protested the fact that the neighbourhood Sandinista Defence Committees [CDSs] would be handling the rationing cards, as the use of a "partisan organization" to perform a state task suggested a "sweetened totalitarian project of creating a single party" (rpt. FBIS 05-02-82). It appears that some local CDS officials did use the ration cards as a lever to force people to participate in neighbourhood activities, a practice that government officials expressly forbade (c.g. FBIS 16-11-83).

drop in real salaries in the formal sector (see below)²⁹.

Throughout 1983, the mass organizations pushed for stricter controls on marketing. "Speculators," commented a Sandinista Defence Committee official, "are as damaging as armed counterrevolutionaries" (B 24-03-83). In his speech on the fourth anniversary of the revolution, Daniel Ortega decried:

the problem of the monopolizers, of the speculative hoarders, of those who have a *somocista* mentality and continue making money on the hunger and needs of the people...

We must punish with real severity the speculative practices of monopolization and, generally, all trafficking in the hunger and necessities of the people. The laws are there. The decisions are there. But we need the energy of everyone to force compliance with these decisions (D. Ortega 1985, 208).

Such rhetoric would become quite frequent in subsequent years. But Sandinista rhetoric always outstripped the actions taken against the unofficial market. The problem is that, while Sandinista rhetoric attempted to construct the "speculators" as a small class of enemies of the people, this was not the perception of most Nicaraguans, who found many of their neighbours or family members involved, in one way or another, in unofficial-market activities. A 1983 study warned that attempts to encourage mass participation in the enforcement of price controls were creating divisions in popular *barrios* (CIERA 1983b, 80).

By 1984, as the Sandinistas confronted the unofficial market, they were forced to say, like the old Pogo cartoon, "We have met the enemy, and he is us." While many of those engaged in unofficial-market activities passionately hated the Sandinistas (as anyone could confirm on a trip through Managua's Eastern Market), there were also many who supported the FSLN on most issues yet ignored its discourse on economic morality. As Carlos Vilas commented of the urban informal sectors,

There does not seem to be for them any particularly acute contradiction between ideological adhesion to the Revolution, and even participation in some of its tasks, and fiscal evasion, price gouging, and the hoarding of

²⁹Minister of Internal Trade Ramón Cabrales estimated that between 1982 and 1984 the number of merchants working in the Eastern Market rose from 4,000 to 27,000 (END 18-07-87).

basic products (1984, 417f).

Thus, firm action against the unofficial market in the name of the state-dominant economy could have threatened the FSLN's urban political base -- just as its attempts to foster the state-dominant economy in the countryside was eroding its rural base. Hence, while willing to engage in certain attacks on the Eastern Market, the government generally limited itself to merely rhetorical assaults on the unofficial market. This made the discourse of economic morality increasingly utopian and irrelevant for people. To an increasing degree, "material" and "moral" stimuli were pointing in contradictory directions. Many quite pro-Sandinista Nicaraguans of my acquaintance, though willing to risk their lives fighting against the contra, nevertheless saw respect for economic laws as naivety³⁰. Thus, the "moral substratum" of the new economy was being destroyed by policies that made it simply too costly to obey the law, and too easy to do otherwise.

While price policy was favouring accumulation within the unofficial market, it was also leading to dis-accumulation within the state complex. This dis-accumulation was laying the basis for the inflationary spiral of the second half of the 1980s. The irony is that policies aimed at controlling inflation contributed to one of the worst cases of hyper-inflation in history. Chapter 4 noted the 1980 economic plan's concern that inflation would hurt popular sectors. Inflation was also viewed as a threat to the stability and predictability required for a state-administered economy. Various policies were designed to dampen the inflationary impact of increased government spending. Costs were controlled by the cheap credit policy, by the government practice of selling imported inputs to producers applying the C\$10:\$1 official exchange rate, and by salary controls, which also served to dampen demand-pull inflation. When all else failed, price controls were used to suppress inflation.

³⁰The majority of Canadians working in Nicaragua continued to convert their dollars into córdobas at the legal parallel rate of C\$28:\$1, even while the unofficial-market rate passed the 500:1 mark. Though I worked in some of the most "revolutionary" institutions in the state apparatus, this behaviour amused rather than impressed our colleagues. It was regularly necessary to defend one's self from the charge of being a complete fool (*pendejo*) on this matter.

But these measures, with the exception of salary controls, limited the income of the state complex. The problem of cheap credit was discussed above. Price controls and the exchange rate policy worked in the same direction. Price controls were more easily imposed on public sector production, but the policy of "reasonable margins" applied to such production frustrated the hope that the public sector would be a source of state accumulation. In the extreme, if the profit margin applied to arrive at the selling price is lower than the rate of inflation for the period of production, the public company ends up with less purchasing power than it started with. To continue producing, it must seek further credit.

In addition, unless it can be ensured that state-produced goods stay within the secure channels until they reach the consumer, the price restraint exercised by state companies will not benefit consumers. Private agents who succeed in coming between the public company and the consumer, to the extent that they can sell the product at a near-market price, become the main beneficiaries of the state pricing policies³¹. An example of this phenomenon is that of beef: by late 1984, the state slaughterhouses were offering C\$6,000 per head to producers, while clandestine houses offered C\$15,000. As a result, only the state producers sold to the state houses. Yet the same state slaughterhouses turned around and sold a large part of their production to private merchants at C\$17 cordobas a pound, only to have it show up in the Managua market at C\$50 (Wheelock 1985b, 18).

For some products, inflation was also widening the gap between prices paid to producers and subsidized consumer prices. By late 1984, the state was paying bean producers C\$8 a pound, putting out C\$2.75 for storage and transport costs, then selling the

³¹These private agents can be either merchants, if the state firm is producing final goods, or producers, in the case of intermediate goods. Aburto's study of the urban informal sector (1988) concluded that many "producers" earned their profits by a thinly-disguised process of reselling on the unofficial market inputs purchased at official prices. Aburto considers these agents "distributing houses" of state inputs, rather than producers. Thus the distinction between "productive" and "unproductive" economic activities breaks down for much of the informal sector: many activities were "productive" in appearance, yet yielded incomes which were essentially identical to arbitrageur profits.

pound of beans to consumers at C\$4, leading to the extreme of producers selling all their beans in order to repurchase them more cheaply from the state marketing agency (B 13-08-83)³².

The fixed exchange rate also caused state dis-accumulation. As noted, the government sold imported inputs to producers applying a C\$10:\$1 rate of conversion. This kept price increases for these imported inputs below 10% per year over the 1980-83 period, while domestic inflation as registered by the CPI was 26.6% per year. Initially, the government tried to apply the same rate of exchange in calculating the prices at which it bought export output from producers. Thus, producer prices were tied to world prices by a fixed rate, despite the differential between domestic and world inflation. This meant that nominal producer prices for coffee and cotton for the 1981-82 agricultural cycle were lower than for the 1977-78 cycle (Spoor 1987), despite an accumulated inflation of 173% between December 1977 and December 1981.

The January 1982 meeting of the Sandinista Assembly recognized that the C\$10:\$1 rate could no longer be applied rigidly to exports³³. Though the new policy was presented as a complicated product-by-product blend of the official and parallel exchange rates (B 08-02-82), in essence producer prices were freed from world prices, and a cost-plus logic came to be used³⁴. Thus, a series of product-by-product implicit rates of exchange was created, all higher than the official rate. These implicit rates ranged from about C\$20:\$1 for cotton in the 1983-84 harvest to C\$100:\$1 for sugar at the beginning of

³²For the same reason, agro-export farms that had traditionally planted some basic grains in order to feed their labour force stopped doing so.

³³The bases of this decision were as much political as economic. See below.

³⁴To be more precise, the cost-plus logic was applied to producers who had greater alternatives available to them. Thus, cotton producers, who made year-to-year decisions on whether and what to produce, were favoured with a 194% increase in the producer price for the 1982-83 cycle, while coffee producers, who were pretty much stuck with their coffee plants, saw their producer price rise by only 20% (Spoor 1987). They reacted by spending less on plant maintenance, which led to a gradual decline in yields (Colburn 1984).

1985³⁵. In effect the state, which was "selling" dollars through its imported input policy at C\$10:\$1, was "buying" them through its producer price policy at much higher rates³⁶.

Thus began "exchange rate loss." The state complex had to throw more córdobas into circulation to buy exportables than it withdrew from circulation through its sales of imports. Exchange rate loss quickly became a major source of monetary expansion, rising from an estimated 5% of nominal GDP in 1982 to nearly 14% in 1984 (Arana et al 1987, 22).

To summarize, the interaction of anti-inflation policies, in a situation where inflation was inevitable owing to the fiscal deficit and expansive credit, turned many of these policies into their opposite, that is, into inflation-generating policies. At one pole of the economic system were private producers and merchants reaping inflation-based profits and taking advantage of the gap between official and market-clearing prices to earn large trading margins. A large part of the profits earned by this sector entered the unofficial market for dollars, in a search for either foreign exchange itself or for luxury imports which the official imports policy had tried to reduce.

At the other pole of the system was a state complex resorting continually to monetary emission to cover its government and credit activities, yet continually transferring purchasing power to the other pole of the economy, through its negative real rates of interest, exchange rate loss, and the "reasonable margin" pricing policy that restrained state-sector prices. These initially anti-inflationary measures impoverished the state complex, leading to a choice between cutting back on social services and other

³⁵The creation of a series of implicit rates of exchange had interesting side effects: in his study of state farms, Colburn found that "Since the exchange rate is set by the government and not by the market, everyone believes that the government can change the prices it pays whenever and however it likes" (1990, 64). This exacerbated the firms' already considerable lack of concern over financial performance. We see once again the side-effects of destroying the "fetishes" of the market.

³⁶The state was selling some imported goods at a higher rate of exchange. When the new agro-export price policy was announced, the rate of conversion for some imported goods was raised to C\$15:\$1 (Decree 956). The rate was increased to C\$20:\$1 in late 1983 (Decree 1379). But the policy applied to little more than those consumer goods deemed non-essential.

government spending, reducing real wage levels, "printing money" to resolve the contradiction, or applying all three responses in varying degrees.

To the extent that the state resorted to creating new purchasing power, a vicious circle was created: as the rate of inflation rose, the transfer of purchasing power from the state complex to the opposite pole was intensified, in so far as real interest rates became ever more negative, and the public sector's "reasonable margin" policy became ever more self-defeating.

While it impoverished the state, government price and distribution policy also contributed to the alienation of the peasantry. In June 1982, the government's Managua Market Corporation prohibited the selling of basic grains at higher than official prices. With official consumer prices below prices being paid to producers, the policy was designed to give the state marketing agency a monopoly on basic grains (B 03-06-82). This objective was never realized, and peasants continued to sell at least part of their marketed output to private traders³⁷. Yet in so doing they continued to meet with the deeply-resented state harassment discussed in the previous chapter.

Without directly questioning the objective of state marketing of peasant products, officials of the FSLN's National Union of Farmers and Ranchers (UNAG) warned of the dangers of the current price policy. Official prices, UNAG head Wilberto Lara commented in early 1984, "are the victim of tortoise-ism," always being set too late (B 12-03-84). In late 1984 UNAG argued that official prices had fallen below the cost of production (END 12-09-84)³⁸.

³⁷These transactions were deeply affected by conditions in the official market. A 1985 report in *Barricada* suggested that private traders were paying peasants just slightly above the official price for maize, then reselling that maize in Managua with a 400% mark-up (B 30-09-85). The traders, who often enjoyed a near-monopsonist position *vis a vis* isolated peasants, could use the official price as a benchmark upon which they only had to improve marginally. Thus, low official prices hurt peasants both when they sold to the state and when they sold in the unofficial market.

³⁸At least one study (Ruben and De Groot 1989, 343f) has supported this contention. On the evolution of deflated prices for the key peasant crops during this period, see Table C.7.

An ironic aspect of all this is that, just as the pricing policy applied to state-produced goods often benefitted private agents more than final consumers, so too did the peasant price policy. For example, most maize bought at official prices from peasants was not sold to consumers, but to private urban tortilla makers whose prices to consumers were generally uncontrolled³⁹.

Official statements during the period indicate a confused awareness of the problem of peasant prices. In a 1983 interview, Jaime Wheelock boasted of the "advantageous prices for maize and beans" (1983, 89). Yet in the same interview he commented that

At a certain point, we and some sectors of production and [state] regulation wanted to make the law of value disappear. But what disappeared instead were nearly all the basic grains. We tried to set a price for beans and force everyone to sell at this price, even the peasants, so that there would be a supply of low-price beans. But what happened? Not only did prices rise even more quickly because of shortages, but these products disappeared (ibid., 117).

Despite this comment, attempts to suspend the workings of the "law of value"⁴⁰ for basic grains were to continue for some time yet. Baumeister and Neira (1986, 296) argue that a response to the problem of peasant prices was blocked by state-production advocates in the government, who felt that increases in producer prices would only strengthen the "enemy."

An additional irritant for the peasantry was the disarticulation of trade created by the state purchasing agency's failure reliably to supply goods that the peasants might purchase, a problem whose importance was now being grasped by government officials. In May 1984, Internal Trade Minister Dionisio Marengo stressed that getting manufactured products out to the countryside was at least as important as increasing prices for peasant products (1984). In late 1984, Jaime Wheelock admitted that this problem had

³⁹In late 1986, I urged that this practice be suspended in favour of direct sales of maize to consumers, who would then be free either to make their own tortillas or negotiate their own arrangements with private tortilla makers. The tortilla makers, however, continued to enjoy what were essentially arbitrageur revenues until the mid-1988 economic reforms (see chapter 8).

⁴⁰By which Wheelock meant simply the supply-demand mechanism.

"tremendously decomposed the peasant economy" (1985b, 34).

By 1984, there was widespread awareness in official circles of the problems being generated by price policy in general. The 1984 economic plan urged that inflation be used to "recover surpluses for the State," and noted various negative consequences of low official prices: deliveries of milk to state channels were dropping, clandestine lumber production was rising, etc. (MIPLAN 1984a, 140, 19). But the official response to the problems created by the pattern of economic control was to propose more control⁴¹. The main objective of price policy, the 1984 plan insisted, should still be the "defence of real salaries" (Ibid., 136). In May, the Sandinista Assembly declared that "it is necessary to exercise resolute control over products that are important for popular consumption" (B 19-05-84). This was interpreted as a call for a "war on speculation," which became the watchword for a while.

In this spirit, the long-promised new consumer protection law was introduced in the Council of State in May 1984. The law gave police, not just the courts, the power to apply penalties (B 25-06-84). It also gave MICOIN the power to intervene "any firm or distribution channel" it thought necessary in order to control the flow of any particular product (Marenco 1984). In introducing the law before the Council of State, Minister of Internal Trade Dionisio Marenco warned that "either we break the hands of the speculators or they will break us" (Ibid.). But he also warned that "an indiscriminate campaign against merchants will cause many problems, distorting the existing distribution networks and causing absolutely unnecessary political discontent."

Marenco also struck a new note, indicating a shift in thinking that he and a few others had been developing over the previous year. Part of the problem, Marenco argued, was that official prices were "laughable" relative to other prices in the economy, and the

⁴¹The Sandinistas were thus following a well-trodden path. E.H. Carr notes that a meeting of the All-Russian Congress of Councils of National Economy in May 1918 divided on the problem of the lack of production flowing through official channels. One approach focused on the fact that official prices were lagging behind inflation, and needed to be adjusted. The second approach, which won the day, called for a strengthening of the official distribution apparatus (1966, 128).

government was "killing the possibility of using money as a means of economic stimulus and of economic control." He also announced that consumer subsidies would be eliminated, a decision that would take several years fully to implement. The elimination of subsidies, Marengo acknowledged,

is not a decision that will win applause or win a popularity contest, but a very difficult decision. That is why it has been considered in great depth, as it has very serious implications, but it is the only alternative we can see at this time.

Marengo's speech is significant, as it presaged the major change in economic policy implemented in early 1985. The new thinking led to increases in official consumer prices for twenty-five products in August 1984 that narrowed the gap between these and unofficial-market prices (B 03-08-84)⁴². In late September, MICOIN announced the opening of a "parallel market" for goods moving through official channels, in which one could buy unrestricted quantities of goods at near-market-clearing prices⁴³. The parallel market strategy, which reflected a concern to shift accumulation from the unofficial market to the state complex⁴⁴, angered many Nicaraguans, as MICOIN was suddenly able to fill supermarkets with all sorts of goods, after proclaiming for weeks that everything was in extremely short supply⁴⁵. The new strategy was also announced after weeks of newspaper advertisements proclaiming the importance of the "secure channels," and left many people confused about the direction of government policy.

⁴²The gap remained substantial however. Barricada recorded unofficial-market mark-ups over the new official prices: 300% for beans, 110% for rice, and 267% for cooking oil (B 03-08-84).

⁴³A similar strategy had earlier been applied to gasoline (B 09-10-83).

⁴⁴A similar strategy underlay the expansion of the "Dollar Stores," government stores which sold, in dollars, items that might otherwise have entered the country through the unofficial market. The "Dinero-tiendas," as they were known, were apparently quite profitable, though politically controversial.

⁴⁵Barricada noted "widespread discontent" with the new policy (rpt. JPRS LAM-84-129). COSEP commented that the parallel market proved that goods "were being hoarded by state organisms and being sold at black market prices" (ibid.).

The increases in official prices and the opening of the parallel market created great resentment towards MICOIN. In my economics classes at the University of Nicaragua, Marengo was the only government official my Sandinista students felt comfortable attacking by name. If MICOIN's new policies were a foretaste of the new economic policy, the political response could hardly have been encouraging for the government, and explains in part why the broad reforms, when they finally came in 1985, moved forward in fits and starts.

Salaries. The government policy of salary austerity continued in this period. Deflated by the CPI, average real salaries in 1984 were 23% lower than 1980, and 44% below their 1977 level (Table C.8). The FSLN leadership continued to counsel patience on the matter. In his 1982 May Day speech, Tomás Borge warned against "economistic errors" and declared that the working class would be "going against history" to struggle primarily for economic demands (rpt. 1985d, 24).

The FSLN's Sandinista Workers' Central (CST), generally docile throughout the 1980s on salary matters, showed some short-lived restlessness during this period. Through 1982, the CST toed the line. When import austerity measures led to a loss of industrial sector employment, CST head Lucio Jimenez suggested workers should moderate their salary demands if they wished to keep their jobs (B 25-10-82). But the National Council of the CST that met in July 1983 was in a more belligerent mood. Workers had previously called for price controls instead of salary increases, Jimenez declared, but price controls had not been effective. Now both controls and salary increases were necessary. He noted that low wages were hurting production, giving the example of a local textile factory that was short on workers (B 06-07-83).

The CST proposed increases in minimum wages, asking for example that the industrial minimum, frozen since June 1981, be raised by 70% (B 10-07-83). Interestingly, this proposal was made in the face of direct criticism from the National Directorate's labour liaison, Victor Tirado. Tirado met the CST demands with a confusing

speech, which proclaimed, among other things, that

Salary is one of the basic categories to carry out the law of unceasing and continuous (sic) development of the productive forces. Thus its handling should be done in a serious and responsible fashion, so that it can play an important role in the struggle for the fundamental interests of the working class (rpt. Tirado 1986, 93).

Tirado argued that salary increases should only reflect productivity increases, and he promoted piece-work, which would become an important element of policy in the coming years⁴⁶. Tirado finished by counselling workers to "work as hard as possible without asking for anything; thus should be the working class, the vanguard class" (Ibid. 97).

After this confrontation with the National Directorate, the CST leadership retreated. By August 1983, Jimenez was calling for a brake on salary increases until the problem of salary "anarchy" had been addressed (B 12-08-83).

Thus, salaries were not adjusted, even though the Ministry of Labour itself was calling for a 50% increase in minimum wages (B 28-07-83). Official documents recognized the negative consequences of the salary policy. The 1984 economic plan stated that "Employment and salary policy should seek to stem the flight of qualified workers from the industrial sector" (MIPLAN 1984a, 56). The National Directorate, however, was concerned that compensating for the accumulated decline in real salaries would trigger a sharp rise in inflation. In his 1984 May Day speech, Jaime Wheelock commented:

In the present situation, it is worthless for the union to go to the company and demand a salary increase... If we increase salaries, prices will increase faster. Because if we increase salaries, what happens? Salary is a cost of production for beans, for cotton, for maize, for sugar, for everything (1984a).

⁴⁶The link between salaries and productivity was common in official statements, and reflects a profound confusion: Tirado was arguing that nominal salaries should only be adjusted for increases in real productivity. In an inflationary situation, of course, such a demand implies that real salaries must fall. And fall they did through the coming years, reaching remarkably low levels in the late 1980s, as shall be seen. The rhetorical link between salaries and productivity was analogous to the view that state firms should earn profits "through productivity, not through price increases." Both views assume an inflation-free situation, and provide no direction for policy in inflationary situations.

This simple analysis, which had been the stock-in-trade of the leadership since the post-insurrection months⁴⁷, was increasingly diverging from reality. First, as real salaries decreased, they became an ever less significant component of total costs. Secondly, inflation during this period was essentially demand-driven. This is demonstrated by the wide gaps between official prices set using a cost-plus logic, and market-clearing prices⁴⁸. Salaries were adjusted upwards in late 1984, and they would be readjusted periodically with the shift of economic policy in 1985. But the view that salary increases were to be avoided to the extent possible continued for several more years.

While many workers were concerned about the erosion of their purchasing power, the government was more concerned with "anarchy" in salary administration, which was leading to the "pirating" of workers between state institutions, and a consequent high rate of mobility of skilled personnel⁴⁹. Attempts to limit movement within the state sector appeared in the 1982 budget (Decree 917). By 1983, the government was resolved to address the issue. In the same July 1983 speech to the National Council of the CST cited above, Tirado noted that the new government had inherited a salary structure that was a "faithful reflection of the anarchy and injustice of the Somocista dictatorship." Salary differentials had not taken into account the varying "complexity of work" and "worker dedication" (rpt. 1986, 90). It was now necessary, Tirado argued, to impose the principle of equal pay for equal "quantity and quality" of work (Ibid., 94)⁵⁰.

⁴⁷See for example the Borge speech cited in Black (1981, 292).

⁴⁸For reasons that are not clear, high officials in the government and FSLN seemed better to understand, or to be more interested in, cost-push inflation rather than demand-pull inflation. While working in the SPP, I was often asked to prepare an estimate of the inflation "because of increased costs" that would result from a forthcoming salary increase. Should I also try to estimate actual inflation, I would ask? No, just inflation "via costs." The SPP's 1985 economic plan projected the inflationary impact of adjustment policies (see chapter seven) exclusive on the basis of "cost inflation" (1985, 104).

⁴⁹Griffith-Jones (1981, 147) describes a similar problem in Allende's Chile.

⁵⁰Ernest Mandel (1968, 725) comments that the theory of payment "in accordance with the quantity and quality of labour performed" is nothing but a crude justification of the differences in wages which exist *de facto* in the U.S.S.R. and in other societies in transition from capitalism to socialism under a marked degree of

In late July 1983, discussion began in various state institutions on the implementation of the "System for the Standardization and Organization of Work and Salaries" (SNOTS). The SNOTS system, whose first phase was gradually implemented through 1984, sought to classify all salaried work in the country into one of twenty-eight categories, according to the degree of "complexity" of the work, level of training required, etc.⁵¹. All workers in any given category would receive the same basic salary. Where it was possible to set quantitative goals for a certain job, that job would be "standardized," and the worker's salary would depend on meeting a basic "norm." Such workers would also receive bonuses for over-fulfilment of their norms. Essentially, therefore, they would be doing piece-work⁵².

The plan also contemplated a variety of other bonuses, which could be applied even to workers whose output could not easily be quantified. Among the other forms discussed and/or implemented were bonuses for seniority and educational level, bonuses for working in a region to which the government was trying to supply workers, and

bureaucratic domination.

The authentically Marxist formula for distribution during the transition, Mandel insists, is that put forth by Marx in his "Critique of the Gotha Programme": "the producers will be paid only in accordance with the *quantity* of labour performed" (Ibid., 724).

⁵¹The SNOTS definitions of work "complexity" provide support for Mandel's critique of payment according to work "quality." It was stipulated that those in directive positions should always be paid more than the highest-paid person under their responsibility (MIPLAN and MITRAB 1984). Hierarchical position, therefore, was better rewarded than expertise.

⁵²As early as 1980, MIPLAN had advocated the payment of workers according to "work accomplished," rather than hours worked (B 17-10-80). It should be pointed out that the legitimacy of piece-work payment depends on the worker's output being linked to her own efforts. In the coming years, Nicaraguan workers would complain that the SNOTS scheme penalized them for factors beyond their control, such as power failures in their plants and raw materials shortages. Thus, during a wild-cat strike at a Managua textile factory in 1986, workers complained that they could not meet their production quotas because 466 of the company's 842 machines were broken (B 19-04-86).

While advocating piece-work, FSLN policy was resolutely opposed to profit-sharing. A 1980 party statement dismissed profit-sharing as a form of manipulation of workers (Secretaría Nacional 1980). Students of mine were strongly rebuked by members of their examining board during the defence of their honours thesis for having recommended profit-sharing.

bonuses depending on the evaluation of one's work by one's supervisor⁵³.

Predictably, workers who had been rebuffed in their search for general salary increases now focused their attention on the job classification procedure. In late 1984, the first legal strike in several years broke out at the Victoria beer factory, as workers demanded that they be reclassified at a higher point in the SNOTS scale (B 21-08-84). The classification process did allow for some upward salary drift. In June 1984, a MITRAB official claimed that implementation of the SNOTS scale had led to an average 40% increase in salaries (B 04-06-84).

Overall, government officials felt that the SNOTS policy had dampened conflicts over salaries. A satisfied Minister of Labour would declare in 1987 that SNOTS

has allowed the union movement to focus on its main task, which is to raise productivity. Thus, a series of economic demands have been left behind. This type of struggle would have increased labour indiscipline, and would have led to an increase in strikes because of continuous salary demands (END 05-05-87).

It was originally hoped that the bonus system could be developed soon after the implementation of the basic salary system⁵⁴. In practice, however, bonuses other than those for "over-fulfilment" were slow in coming, and employers frequently complained that SNOTS had become a strait-jacket that prevented them from rewarding their best personnel. Later in the 1980s, the rigidity of the SNOTS system was to have a serious side-effect: the attempt to address salary "anarchy" meant that the government found itself announcing simultaneous salary increases for some 300 thousand workers. Each such increase thus became a signal for prices to increase. A complicated new relation between salaries and prices was thus created, in which salary increases sparked inflation through a

⁵³This last type of bonus implied an increase in workers' dependence upon their immediate supervisors. It could also provide yet another cover for hierarchical privileges. In August 1987 I studied the performance evaluations of 181 workers at the SPP. The evaluations revealed an interesting "hierarchy bias": while 19% of personnel received an overall evaluation of "very good," this figure rose to 32% for directors, and dropped to 10% for analysts. It is also worth noting that just 1% of males received an overall rating of "deficient," compared to 5% of women.

⁵⁴On this, see the interview with Benedicto Meneses of the Ministry of Labour (B 01-02-84).

mechanism that was neither cost-push nor demand-pull. I will return to this point in the next chapter.

D. Relations with the bourgeoisie

While not bending to the bourgeoisie's political demands in the 1982-1984 period, the FSLN did make more effort to avoid a sharp class polarization that would drive the bourgeoisie as a whole into the arms of Reaganism. Occasionally, FSLN leaders would warn that the Reagan Administration could threaten the bourgeoisie's own survival⁵⁵. Upon other occasions, however, Sandinista leaders promised that they would not be provoked into taking rash measures, and gave the mixed economy a renewed vote of confidence⁵⁶. There was also relatively little pressure exerted on the bourgeoisie by the Sandinista mass organizations during this period. As the war intensified, the FSLN tightened its control over its mass organizations, and this control was used in part to minimize open class conflict with the bourgeoisie. This section will first examine the bourgeoisie's political activities, before considering the economic "incentives" offered by the government to the bourgeoisie, and the latter's response to those incentives.

As noted in the previous chapter, Reagan's election led sectors of the bourgeoisie to assume a more radical opposition posture. FSLN leaders frequently lamented the fact

⁵⁵Thus, Bayardo Arce commented in June 1982 that if Nicaragua were pushed to a situation in which we have only whatever we produce and only a little foreign aid from countries that do not yield to pressure from the Reagan administration, then it will be difficult to maintain a mixed economy (FBIS 23-06-82).

⁵⁶Such votes of confidence were most frequently expressed by Jaime Wheelock. See for example Wheelock (1983, 35f). But Wheelock seems to have been articulating the view of at least part of the National Directorate during this time. Carlos Nuñez commented in 1983 that the Reaganites

think that we Sandinistas are going to lose the patience and realism that has characterized us through the last twenty-two years of revolutionary struggle. They want this counterrevolutionary offensive to make us desperate, to oblige us to take measures that they will use to justify their aggression. But we are committed to maintaining our revolutionary model. National unity, the mixed economy and political pluralism are the best instruments for the defence of the revolution and we will not destroy those instruments (B 24-04-83).

that "the most politicized sector [of the bourgeoisie] identifies totally with U.S. policy" (D. Ortega, JPRS 79590). With the intensification of the contra war and other forms of United States pressure, the organized bourgeoisie both brought its agenda into closer alignment with that of the Reagan administration, and sought to capitalize on United States pressure in order to pursue its interests. COSEP and the right-wing parties would invite the United States ambassador in Nicaragua to their meetings, meekly visit the embassy whenever they were convoked, and make no apologies for the ever-clearer convergence between their political rhetoric and that of a foreign power that was trying to destroy the Nicaraguan government⁵⁷.

A March 1982 declaration of the "Democratic Coordinator" provides a good illustration of the attempt to link an internal agenda with that of the United States. The "Coordinator," formed in 1981, was comprised of all the component organizations of COSEP, a few right-wing opposition parties including Robelo's Nicaraguan Democratic Movement, and two United States-backed labour federations⁵⁸. In March 1982 the group presented its proposals for a solution to political turmoil in Nicaragua and Central America. The Coordinator called for a non-aggression pact between Nicaragua and the United States, similar pacts with Central American neighbours, the end to outside assistance of all armed insurgencies in the region, and the resumption of United States economic aid to Nicaragua. Up to this point, there was nothing that FSLN centrists would

⁵⁷Asked about the coincidences between her party's line and that of Reagan, Azucena Ferry of the Social Christian Party commented that "Maybe those gentlemen have studied the Nicaraguan problem so well that they are quite knowledgeable, and that is why they say the same things we do" (B 16-12-83). Within a few months, she had joined the contra executive.

⁵⁸COSEP would appear to have been the only component of the Coordinator that had a clear constituency. An observer comments that the Coordinator's parties were weak, some existing only on paper, others compromised by their performance under the old regime. Sandinista restrictions had limited their development under the revolution. A Western ambassador gave this assessment of them in 1983: "They have no leaders, no program, and so few members that they would have a hard time coming up with poll watchers in an election" (Gilbert 1990, 122).

A New York Times observer later noted that "Nicaraguan political parties are traditionally weak and divided, but business groups are remarkably united" (NYT 29-07-88).

find particularly objectionable. The document then called for a

gradual process of regional disarmament, whose ultimate objective would be the reduction of military forces to the point that only police forces would remain.

The sovereignty of these disarmed countries would then be "firmly guaranteed" by the Organization of American States.

The Coordinator also called for negotiations within each country of the region. In the Nicaraguan case, these negotiations would lead to such goals as "effective political pluralism," "a clearly defined mixed economy," the review of all laws to ensure their compliance with the "Original Programme" of the government, etc. All internal negotiations

would be obligatory and would be subject to the supervision of an international committee of representatives of American states which, with the assistance of the OAS, would ensure compliance with agreements

(B 25-03-82).

The Democratic Coordinator thus sought to use United States pressure to win support for a "package deal" that would offer something for everyone. Contra pressure would be called off, in return for a regional disarmament which, for the Sandinistas who had little faith in the capacity of the OAS to restrain the Reagan Administration, would essentially ratify Central America's traditional status as a United States protectorate. The call for obligatory negotiations with the opposition under international supervision in effect denied the government its status as the legitimate sovereign government of Nicaragua. This denial of legitimacy, a new twist in the bourgeoisie's position, coincided with the interests of the Reagan administration, as it justified United States backing of the contra⁵⁹.

⁵⁹The bourgeoisie's position on the legitimacy question was more tenuous than that of the Reagan Administration, since it had initially accepted the legitimacy of the government that issued from the insurrection, while Reagan's Republicans had never done so. The bourgeoisie thus had to argue that at some point that was never clearly specified, a legitimate government had become illegitimate, apparently by "betraying" the "original project" of the revolution, as codified in the 1979 Plan of Government. I have argued in previous chapters that the Plan of Government in fact gave the FSLN much more latitude than its opponents admitted. In addition, while elements in that plan were changed, such as the composition of the Council of State, such changes were in accordance with

The organized bourgeoisie would attempt to capitalize on every escalation of United States pressure throughout the coming years. Thus, on the day after the United States invaded Grenada, a group of opposition parties declared that

It is indispensable that Nicaragua... promote immediate actions of national reconciliation, which will only be possible through the fulfilment of the Original Programme of the Revolution (LP 26-10-83).

As the FSLN denounced such proposals as thinly-veiled treason, various members of the bourgeoisie abandoned the "civic struggle" and joined the contra. Former Government Junta member Alfonso Robelo took this step in mid-1982, Conservative Party leader Adolfo Calero early the following year. Others would follow.

Given its rejection of the legitimacy of the Sandinista government, the organized bourgeoisie was presented with a dilemma when the FSLN called for national elections to be held in November 1984. To participate, or to refuse to participate without a credible excuse, could serve to legitimate the government internationally. Participation did hold out the possibility of weakening FSLN power, either by capturing a significant number of seats in the National Assembly or, less likely, by capturing the presidency itself.

Consistent with its denial of the government's legitimacy, the Democratic Coordinator called for elections to be supervised by the OAS or some other international body. When the FSLN rejected this proposal, COSEP called on rightist parties to boycott the elections (B 23-03-84). This position represented a problem for the Democratic Coordinator, however. A rightist electoral opposition to the FSLN was forming, and the Coordinator ran the risk of being marginalized as an opposition force⁶⁰. In July, the Coordinator named Arturo Cruz, former member of the government junta, as its

Nicaragua's "quasi-constitution," the so-called Fundamental Statute.

The Reagan Administration, for its part, made frequent references to the FSLN's betrayal of the revolution, and also justified its actions by alleged Sandinista non-compliance with promises made to the OAS in June 1979. The International Court of Justice decisively rejected this argument in (1986, para. 260f).

⁶⁰A branch of the Conservative Democratic Party had split off to field candidate Clemente Guido, and the Independent Liberal Party, which had been allied with the FSLN, moved into opposition and ran Virgilio Godoy, who quickly adopted a strident rightist rhetoric.

presidential candidate. Cruz sought to position himself as a mediator between the FSLN and the contra. He announced that he would not register to run in the election unless certain prior conditions were met, such as a pardon for all imprisoned members of Somoza's National Guard, and the initiation of direct talks with the contra (B 26-07-84; B 04-08-84). In negotiations with the FSLN, Cruz even implied he had the power to have the contra agree to an immediate cease-fire.

In the end, negotiations broke down, and Cruz did not run. The Sandinistas felt that the Democratic Coordinator, which had tied its future so closely to the Reagan administration, was following the latter's orders that it not participate in elections. Years later, Cruz would comment that his decision not to run had been a mistake, and admit that he was on the CIA payroll (NYT 08-01-88).

The FSLN won two-thirds of the vote, while the rightist parties that did participate won most of the rest, which most observers considered a surprisingly respectable showing⁶¹. Nevertheless, COSEP and the Democratic Coordinator were successful in convincing many external observers that they were the only "true" opposition to the FSLN, and that the elections were a sham⁶².

Though the FLSN sought to contain the bourgeoisie politically, in January 1982 the Sandinista Assembly extended to part of the bourgeoisie an economic carrot to accompany the stick of nationalization: "incentives" in the form of increased prices for export production. The bourgeoisie welcomed the new policy as a sign of increased Sandinista pragmatism⁶³. La Prensa saw in the policy an indicator of a "rightward shift"

⁶¹The leftist parties other than the FSLN, whose influence had so worried the FSLN in 1979-1980, in total won a mere 4% of the vote.

⁶²It is a near-impossible task to evaluate the degree of internal support for the various opposition tendencies. Part of the problem is that La Prensa was the central communication medium of the opposition, and it resolutely suppressed news about the doings of opposition parties that did not toe the abstentionist line during the election campaign.

⁶³See for example the comments of Adolfo Calero, head of the local Coca-Cola factory, Political Secretary of the Conservative Party, and future contra leader (FBIS 19-02-82).

in the revolution⁶⁴. The incentives caused tension within the FSLN, however. They were opposed by Henry Ruiz, who argued that the incentives would merely give the bourgeoisie a wind-fall profit (Cruz 1989, 142). Throughout the coming years, these "incentives" would be seen by some as a partial capitulation to the bourgeoisie in the class struggle taking place in Nicaragua⁶⁵.

FSLN leaders frequently referred to the special prices paid to the export bourgeoisie as "political prices" (Ramírez 1987, 212). The implication was that it was worth paying these prices, and incurring "exchange rate loss," whether or not private production actually responded to the incentives. Carlos Vilas argues that

With the intensification of external military aggression, the economic measures adopted by the State on behalf of entrepreneurial groups -- above all agro-exporters -- objectively took on the character of economic stimuli of their political behaviour, more than of their investment behaviour (1985, 21).

One hopes that the economic policies taken with respect to the bourgeoisie were politically-oriented, for the truth is that as incentives of productive behaviour, they were quite ill-conceived. The import and export price policy, though provoking "exchange rate loss" on the part of the state complex, did not thereby automatically transfer purchasing power to the productive bourgeoisie. The same set of policies could thus correctly appear to elements in the FSLN as a give-away to the bourgeoisie, and to the productive bourgeoisie as a severe limitation on their earning capacity. Such a contradictory evaluation occurred because of the conflicting logics of the two sectors.

The FSLN could point out to agro-exporters that the state was selling them imported inputs at a 10:1 rate of exchange, and that it was paying them a guaranteed price calculated on a cost-plus logic, which meant that it was buying their production at an implicit rate of exchange much higher than that of 10:1. How could the bourgeoisie

⁶⁴See Sergio Ramírez' reply to this view (B 12-02-82).

⁶⁵In the 1985 congress of the Nicaraguan Association of Social Scientists, a paper on "Class Struggle in Nicaragua" was presented, consisting of little more than a long harangue against the practice of giving "incentives" to the bourgeoisie.

complain, when faced with such generosity?

Because the export bourgeoisie had a very different view of things: by keeping input prices low and applying a cost-plus logic, not only producer prices but also producer profits rose more slowly than the rate of inflation. Many producers changed their *córdoba* profits into dollars on the unofficial market or bought luxury goods there, the price of which reflected the unofficial rate of exchange, and thus measured their profits against this unofficial-market rate. This unofficial-market rate rose at an average of 121% annually during the 1981-1984 period (Table C.12). By this measure, entirely consistent with the logic of a dollar-oriented bourgeoisie, producer profits diminished radically over the period.

But if government policies led both to a great loss of state resources and to a reduction in the profits of the productive bourgeoisie, who profited from these policies? As argued above, the policy of importing and selling goods at a rate of exchange that increasingly diverged from a market-clearing level created a great opportunity for arbitrage profits for anyone who could straddle the official and unofficial markets. No doubt many bourgeois producers profited in this manner, but in their capacity as "speculators," not in their capacity as producers. That is to say, government policy may have handed to the bourgeoisie as arbitrageurs what it took away from them as producers. Even if the bourgeoisie thereby "came out even," however, such policy was not neutral in its consequences, as it discouraged precisely the behaviour it should have encouraged, and vice versa.

Much the same can be said of credit and interest rate policies. The high levels of working costs covered by bank credit allowed producers who had economic surpluses left over from previous production cycles to dedicate these to other activities, often speculative or unofficial-market oriented. Had they been tempted to deposit their profits in the state banking system in order to be able to apply them to the next productive cycle,

as FSLN leaders had naively assumed they must⁶⁶, the negative real rates of interest paid on deposits would have brought them to their senses. Since the banking system also charged negative real rates of interest on its loans, it was forced to generate new purchasing power to cover working costs that many producers could have met themselves, had the state offered them the appropriate financial instruments to protect their revenue from inflation.

Hence, if policy bought the political neutrality of part of the bourgeoisie, it did so only because it allowed and even encouraged that bourgeoisie -- along with a host of petty arbitrageurs -- to engage in behaviour that was increasingly undermining economic stability. This, for some, was too high a price to pay. In a revealing phrase, the 1984 economic plan called for a system of export incentives that "actually stimulates exports" (MIPLAN 1984a, 168). But such a system could not be devised without addressing all the price disequilibria that policy had generated.

All this must be kept in mind when evaluating the productive behaviour of the bourgeoisie. In Ryan (1986a, 11), I presented data that illustrated the greater productive dynamism of both the state sector and of small private production, relative to that of medium and large private production. Between 1980 and 1983, for example, the share of total agricultural production generated by medium and large private producers fell from 63% to 33%, while that generated by the state sector grew from 14% to 25%⁶⁷.

The question is what this productive performance on the part of the bourgeoisie proves. Many Sandinistas and observers took it as a symptom of systematic bourgeois sabotage of the revolution, of an organized campaign of "clandestine war" against the FSLN (Conroy 1985, 291)⁶⁸. This evaluation may be correct, but it is important to note

⁶⁶See above, chapter 4.

⁶⁷Agrarian reform played some role in this shift: medium and large private producers lost approximately 16% of their land. Lands under the control of the state sector, however, did not grow during this period.

⁶⁸See also (Vilas 1985, 29); (Enriquez and Spalding 1987, 119); (Kaimowitz 1989, 60).

that bourgeois economic behaviour can be explained without reference to such an organized campaign. The problem is that total output statistics judge the bourgeoisie by the criteria of the socialist economy. The bourgeois enterprise, unlike the typical socialist one, seeks to maximize profits, not output. When policies drive a wedge between productivity and profitability, as government policies did during this period, it is not surprising that bourgeois production stagnates. Thus, one should ask whether bourgeois performance reflects a deliberate ignoring of opportunities for profit, or whether the bourgeoisie was not simply following its own good sense⁶⁹. Underlying many Sandinista complaints about the bourgeoisie lay the ever-frustrated hope that the bourgeoisie would behave as something other than a bourgeoisie. Advocates of future state-dominant mixed economy projects will have to consider whether the success of their model depends upon the leopard changing its spots.

E. Agrarian Reform

The July 1981 agrarian reform law represented a retreat for the proponents of state agriculture: events had proven that peasant land hunger was not going to be satisfied by the offer of employment on state farms, and some compromise was necessary to contain anarchy in the countryside. By favouring production cooperatives, however, the law sought to limit the scope of the retreat. The reversion to "primitive" peasant production would be contained, and land would be maintained within the modern pole of the bipolar

⁶⁹The analysis has remained at a "neo-classical" level, arguing that the price signals given to the bourgeoisie did not encourage production. The argument is strengthened by taking into account the overall social situation of the bourgeoisie. As Carlos Vilas put it: Politically subordinated, military disarmed, facing the possibility of total confiscation if he joins the counterrevolution or leaves the country, surreptitiously sending his sons out of the country to avoid military service, the Nicaraguan bourgeois is living a true hell, a situation that certainly does not encourage productive investment or the calculus based on entrepreneurial profits (1986, 88).

A Life Magazine reporter described the bourgeoisie's "life on the edge":

Their Mercedes are locked in garages; their yachts are in dry dock. When they venture out to restaurants, they suspect the waiters are spies... "How do I stand it?" says one businessman. "I leave the country every four weeks and live like an aristocrat" (Dougherty 1983).

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agricultural system.

It appears that officials within MIDINRA were slow to accept even this partial retreat from the statist vision. As Gilbert notes, "the state sector continued to dominate the ministry's budget, consuming resources which might have gone into organizing and supporting the cooperatives" (1990, 93). For two years after the declaration of the agrarian reform law, reform proceeded at a snail's pace. By the end of 1982, a mere 1.6% of Nicaragua's agricultural land had been transferred. Of this, over 80% had been used to form production cooperatives (Table C.13). MIDINRA seemed much more adept at expropriating land than at transferring it to peasants: by mid-1982, five times as much had been expropriated under the agrarian reform law as transferred (B 15-06-82)⁷⁰. Those with more patience than landless peasants argued that such things take time, that all must be done scientifically: the land transfer was proceeding slowly, Jaime Wheelock insisted, only because the government was "carefully seeking out the best land" to transfer to peasants.

MIDINRA apparently had little intention of modifying this approach. Salvador Mayorga, MIDINRA Vice-Minister in charge of the reform, announced in January 1983 that the coming year would see the transfer of 140,000 hectares -- about 2.5% of all agricultural land -- to cooperatives. Mayorga added that during 1983 MIDINRA's attention would be focused upon a "selected group of cooperatives," which would receive special technical assistance, training in accounting, etc. (B 30-01-83; FBIS 08-02-83). Jaime Wheelock declared in a 1983 interview that "we have achieved a rather acceptable process of transformation," and held that the agrarian reform would now enter a phase of "consolidation and rationalization of that which has been achieved" (1983, 85, 88).

But politics imposed an abandonment of this gradualist approach to the agrarian reform. I believe that the United States invasion of Grenada in late October 1983 marked the point of inflection in the reform process. Contra attacks had been stepped up, key oil

⁷⁰Thus, the state sector continued to grow, reaching its peak of 23% of agricultural land in 1982.

storage facilities had been destroyed on both coasts, and many believed there would be a decisive attempt to overthrow the Sandinistas before Christmas. Up to this point, the reform process was following the rhythm predicted by Mayorga in early 1983. But just two days after the invasion, Jaime Wheelock announced that 160,000 hectares would be transferred before year's end (B 28-10-83)⁷¹. In addition, the government began to transform *de facto* possession of land into legal title for thousands of peasants⁷².

Thus, as noted in early 1984, "30% of the land given to *campesinos* since October 1981 was granted in the last 41 days of 1983" (Ryan 1984). For 1984, MIDINRA planned to either transfer or give legal title to some 490,000 hectares of land. As Jaime Wheelock noted at the end of 1984, "political conditions" forced a near-doubling of this pace (Wheelock 1985b, 21).

This represented more than merely a quantitative acceleration in the agrarian reform. Land was now being transferred at a pace that would inevitably undermine MIDINRA's vision of an agrarian reform dominated by modern, well-organized cooperatives maintaining close links with the state. For the first time, the FSLN was accepting that the survival of the revolution would require at least a partial abandonment of the vision of a state-dominated countryside, as well as a "regression" of some land into the "primitive" pole of the bipolar agricultural economy.

Nevertheless, government resistance to the transfer of land to individuals continued. Though the transformation of *de facto* possession into legal title represented a significant support for small-hold production, by the end of 1984 only 8% of actually transferred land had been granted to individuals. In addition, some peasants had lost

⁷¹Without specifically mentioning Grenada, both Borge (1984b, 159) and Wheelock (1985b, 90; 1990, 72) recognize that the acceleration of the reform was a response to United States aggression.

⁷²This generally affected those who had settled on idle national lands along the agricultural frontier. Under the Somoza regime, such *precaristas* had often been displaced by the export agriculture booms.

access to the land that they had previously worked⁷³. A 1982 CIERA document celebrated the fact that "the individual peasant economy is being channeled into higher forms of organization" (rpt. CIERA 1983a, 71). The document discussed the need to

Utilize the political space accorded by the will of the peasant community to move ahead in the socialization of our economy and our society. Such an effort will necessarily have to rely on the mobilization of thousands of cadres in the countryside to provide political and ideological support in the difficult task of collectivization (Ibid., 13)⁷⁴.

The peasantry was not enamoured of this strategy⁷⁵. As one observer put it, the production cooperatives represented "an unwelcome toll necessary to gain access to land" (Envío, no. 72, June 1987). Both FSLN and UNAG officials attributed the resistance to

⁷³The 1981 agrarian reform law called for the expropriation of all lands involved in non-monetary renting, such as share-cropping. CIERA condemned such rental arrangements as "proper to the Middle Ages" (1983b, 41). While share-cropping relations are often highly exploitative, the assumption that they are necessarily so is problematic. In the Nicaraguan context, peasants who received access to a plot of land and a modest working capital in exchange for half of their crop (*mediería*) might have been no worse off than many who were paying a money rent and relying on usurers for working capital. In any case, they certainly did not feel themselves worse off than those who had no access to land at all. But under the terms of the agrarian reform law, peasants could find themselves liberated from their exploitative share-cropping arrangements, only to find that they now had no access to land at all, unless they were willing to join a production cooperative.

As Vilas (1987, 11) notes, "The revolutionary outlook correctly sees the exploitative content of [paternalistic landlord-peasant relations]. But it does not always see that this relation also addresses some basic needs of people."

Ironically, even some state farms were leasing land to peasants under these "super-exploitative" forms (B 30-01-83). Kaimowitz (1989, 62) argues, however, that in general the state farms abandoned the non-monetary rental relations maintained by the farms' previous owners. This aggravated the land problem for local peasants.

The state's actions in "liberating" peasants from non-monetary rental arrangements was similar in effect to its attempted liberation of peasants from private rural merchants who, it eventually became clear, had linked the peasantry with the city in a much more complex fashion than state trading organizations initially understood.

⁷⁴This statement is typical of the vague sense of disquiet running through much official discourse on the peasantry at this time: if the "will" of the peasantry was to socialize production, why were "thousands of cadres" required "to provide political and ideological support" for something the peasantry already wanted?

⁷⁵The discussion here focuses on the production cooperatives, or "CAS" (Cooperativas Agrícolas Sandinistas). There were other forms of cooperative organization that did not involve collective production. Thus, the "CCS" (Cooperativas de Crédito y Servicios) were groups of individual producers organized for purposes of receiving credit and other agricultural services. Though sometimes viewed as part of the "cooperative sector," the CCS were individual producers.

enter cooperatives to ideological backwardness. Victor Tirado noted in late 1981 that

It is not easy to eliminate from the minds of many *compañero* peasants the established system of individually working the land. We must all fight against that system. We have to eliminate from our minds the individualistic ideas because it has been proven that collective exploitation of land favors peasants more than individual work in a plot which perhaps will never get him out of misery and backwardness (JPRS 79359).

But peasants could legitimately argue that the cooperatives were more trouble than they were worth. Many cooperatives suffered from serious problems of internal organization. In some cooperatives, small groups of members -- often belonging to the same extended family -- tried to force out other members, thus reducing the number of members among whom profits would be shared⁷⁶. Such ousted members would be replaced by salaried workers.

The war gave the peasantry another reason to resist production cooperatives, which were a favoured target of contra terrorism. In late 1983, the government reported that nearly 400 cooperative members had been killed by the contra (B 24-11-83)⁷⁷. Despite the peasant resistance to collective production, by late 1984 there was no plan to modify the focus on production cooperatives. As we shall see in the next chapter, however, political conditions once again imposed a shift in the direction of the agrarian reform.

Unlike the 1979-1981 period, FSLN handling of land questions now demonstrated greater concern not to frighten the rural bourgeoisie any more than was necessary. Restrictions on land seizures were apparently more effective than previously, and the government used some state land for the agrarian reform in order to cushion the tension between peasant land hunger and the desire to pacify the bourgeoisie. Thus, though the

⁷⁶In many cases, the cooperatives did develop an *esprit de corps*, however. On one occasion, I sat on the sidelines of a rather bloody brawl between members of two neighbouring cooperatives of the Matagalpa department, in which the participants displayed a high degree of collective spirit (and very little of that peasant individualism that so worried the FSLN), though probably not in the fashion that the advocates of the cooperatives had hoped.

⁷⁷M. Ortega (1989, 204) states that 61% of those killed in the war up to 1987 were cooperative members. He adds that peasants also stayed away from the cooperatives as they were seen as a prime site of recruitment for the Sandinista Popular Army.

transfer of land to peasants accelerated in 1984, expropriations declined by nearly 60% (Wheelock 1990, 118). By late 1984, the state share of agricultural land had declined from 23% to 19% (Table C.13)⁷⁸. The FSLN repeatedly expressed its desire to protect producers "who are efficient and are not involved in counterrevolutionary actions" (B 02-06-84). By late 1984, Jaime Wheelock was promising that expropriation of land for reform purposes would soon be suspended in entire regions of the country, though "counterrevolutionary" producers would still be vulnerable (Wheelock 1985b, 33f). This promise could not be kept, as will be seen.

F. Conclusion

By the end of 1984, Nicaragua had entered into a political and economic crisis. The most serious political problem for the Sandinistas was no longer the relation with the bourgeoisie, which had occupied so much attention since 1979, but their relation with the peasantry. The Sandinista leadership was slowly realizing that, whatever the "objective class nature" of the contra's overall project, the peasantry had become the contra's effective social base. While members of the bourgeoisie might root for the contra from Managua, or join the contra leadership in Miami, those who fought and died with the contra were, by and large, peasants. This does not mean that the peasantry had gone over to the contra *en bloc*. But enough peasants had turned to the contra to give the United States the basic human resources it needed to wage its war against the Sandinistas.

At different points in this chapter, we have noted the various bases of peasant disenchantment: the state was trying to force peasants to sell their output at low prices; rural trade had been disarticulated; MIDINRA was focusing its energy on large modern projects rather than peasant-oriented extension services; the agrarian reform was forcing peasants into cooperatives, and ending "pre-capitalist" rental relationships that had been

⁷⁸While Sandinista ideology might have viewed this as a "regression," cooperatives formed from state land that I visited in 1985 appeared to have been much more efficiently run than when they had been in state hands. This is not a reflection on the state farms in general: the government probably sought to unload only its most chaotic farms.

the only access to land for many peasants⁷⁹. These factors help explain the willingness of many peasants to participate in, or collaborate with, the contra.

It was difficult for the FSLN leadership to understand the roots of peasant disaffection. Jaime Wheelock commented in 1983 that "If the revolution has benefitted any social sector in the country, that sector is the peasantry" (1983, 92). The leadership could point to the tremendous increase in credit granted to peasants, and to the extension of health and education services in the countryside. It could also point to the same agrarian reform that had frustrated so many peasants: the reform, after all, was reducing the concentration of land ownership, even if cooperative ownership was not the first choice of many peasants.

Unable or unwilling to identify the economic roots of peasant alienation, the leadership took refuge in its long-held concept of "peasant backwardness." The contra was directing its propaganda towards the peasantry, Luís Carrión argued in 1983, because the peasantry has an "almost fanatic religious mentality" (cited in Gilbert 1990, 97). Phenomena such as the peasantry's impatience with the agrarian reform were viewed as a symptom of peasant "individualism," which could be addressed through the "mobilization of thousands of cadres" advocated by CIERA.

Despite its belief in peasant backwardness and its tendency to underestimate the peasantry's grievances, however, the FSLN was able to change course from 1985 on. We will see in the next chapter that many of the specific grievances of the peasantry were addressed through shifts in policy. These shifts, however, also imperiled the FSLN's overall political project, and made the socialist economy an ever-more-distant dream. The FSLN had to sacrifice elements of its project in order to secure its hold on power.

While the FSLN was thus able to address its central political problem, the economic crisis proved more intractable. After the FSLN lost power in 1990, there was much debate within the party on where things had begun to go wrong. Though it was

⁷⁹Kaimowitz (1989, 65) points out that, since many peasants were also seasonal wage workers, they were also hurt by declining real wages.

certainly not obvious at the time, I believe that during the 1982-1984 period the policies outlined in this chapter created an economic mess from which the FSLN was never able to extricate itself. Just as its early anti-inflationary policies had been converted by the logic of the situation into spurs to inflation, so every attempt at stabilization implemented from 1985 on seemed to increase economic instability.

It is possible, though by no means certain, that economic reform would have been more successful had the government attempted to implement a change of direction sooner. Why did it not do so? Certainly many within the government were aware of the problems being caused by the increasing economic imbalance. As has been noted, MIPLAN stressed from the beginning the need for balance in the economy. Perhaps the chief weakness of official economic policy was that it advocated an "economics of balance", but failed to articulate a contingency plan, an "economics of imbalance." When severe fiscal-financial imbalance emerged in 1983, there was simply no coherent policy response. Policy was paralysed.

Timing played a role in this: the depth of the economic crisis became apparent only slowly, even for those of us who were living through it. In 1982, the government deficit in relation to GDP was up only mildly from the previous year, and December-to-December inflation had fallen for the third consecutive year. The tax system was improving, and it was reasonable to assume that the fiscal-financial imbalance would continue to be manageable.

It was in 1983 that everything went off the rails. Yet it was also in 1983 that Nicaragua enjoyed the highest GDP growth in Latin America and the Caribbean (CEPAL

1985)⁸⁰. The FSLN celebrated the results: Jaime Wheelock proclaimed that "We are now following a more solid and firm strategy, that will improve the quality of life of the entire people" (B 25-01-84).

By the time the economic crisis became visible to all, Nicaragua was involved in a serious war, a war that threatened all of the fundamental objectives of the revolution. The government could see no way to restore economic balance without policies that were bound to erode its political support, at least in the short run. Thus, despite the difficult economic situation, the FSLN's economic platform in the 1984 election essentially promised to stay the course: "central planning" would "continue to be strengthened," as would the "defence" of the prices of basic consumer goods (FSLN 1985, 316).

But the political cost of changing course was not the only barrier to change at this time. Equally serious was the fact that within the FSLN leadership itself there was simply no consensus on where to go. Should there be an intensified control of the economy? Or should a restoration of market mechanisms be attempted? There was an awareness that control was proving contradictory, yet the history and instincts of the leadership militated against a turn to the market. The National Directorate was divided on these options, and there was probably no single person in the country who fully understood the implications of each path. Alejandro Martínez would later comment that officials were worried that a clear discussion on the economic crisis and the available options would threaten the "extraordinary unity" that the National Directorate had thus far maintained (1990, 113)⁸¹.

⁸⁰This result provoked great dismay among the opposition. When Barricada published the CEPAL data with great fanfare, it accompanied the article with a picture of the table from the official CEPAL publication. Someone in the Barricada graphics department had pencilled in a plus sign before Nicaragua's result, to distinguish it, one must suppose, from the sea of minus signs around it. La Prensa quickly concluded that Barricada had simply changed a minus sign to a plus, since it was not possible that the economy had grown so much. Barricada quickly replied with an unaltered picture of the table. La Prensa then replied with one of the few critical analyses of the GDP ever encountered in a right-wing publication.

⁸¹This is not to say that the National Directorate did not discuss economic questions. Some have argued that the party was so preoccupied with the military threat during this period that little attention was being paid to economic questions. Yet Bayardo Arce commented in August 1983 that the Directorate had recently held twelve meetings on the question of shortages (B 13-08-83). Thus, the economy was discussed, but discussion of

By the time Nicaragua's long election period was finished in November 1984, the government could no longer delay a major revision of policy. In a December 1984 speech, Jaime Wheelock referred to the problems of inflation, the foreign exchange shortage, and food shortages, and commented "we can now say that these tendencies have become factors of extraordinary gravity for the national economy and for the revolution" (1985b, 68). In an indication of the coming change of policy, Wheelock blamed the situation on external factors and on the "wearing out of the economic policies that we adopted."

The economic distortions generated by the interaction of the legal and unofficial markets were reaching the point of the ludicrous. A company given access to foreign currency could buy a new tractor for C\$150,000, but \$300 worth of spare parts for an old tractor, which had to be sought on the unofficial market, cost just as much. People mocked the "so-called secure channels", and were ever more dependent on the unofficial market, with its mark-ups of up to 500% over official prices. New occupational categories developed accordingly. A few blocks from my place of work, women and children slept on the sidewalk in front of a shoe store that sold at official prices, in order to buy, first thing in the morning, footwear that showed up across the street in the "Eastern Market" by mid-morning, with prices having undergone a rapid 400% mark-up.

The economic situation gave a new tone to the language even of those who supported the FSLN. An article in the pro-government El Nuevo Diario began:

A worker was saying to me the other day that it seems that the Revolution is being made on behalf of the new rich, the import-export traders, the hoarders, the black marketeers, those who, without serious obstacles, grab up the toys, the spare parts, the food, all the little that we have in this country through our great sacrifice (END 31-12-84).

Thus, the FSLN was forced to act. But it did so without internal consensus, and this was to prove decisive in the coming period. With each sign that its new policies were not working as well as expected, it would back off, and policy would be frozen once again. The 1985-1987 period would be a time of spasmodic economic reform.

broad options was delayed.

Chapter 7: The hesitant turn to the market (1985-1987)

In his famous funeral oration, Thucydides has Pericles say of the Athenian empire: "it may have been wrong to take it; it is certainly dangerous to let it go" (rpt. 1954, 132). Much the same could be said of the Sandinista state's relationship to the Nicaraguan economy from 1985 on. After a multi-faceted attempt to "take hold" of the economy, by substituting state administrative action for the mechanisms of the market, Nicaragua entered a chaotic period of "letting go," in which the FSLN sought to extricate the state from its administration of the economy without destroying its bases of support.

In this chaotic period, the FSLN repeatedly confronted the fact that the instruments one forges often become one's shackles. The Sandinistas had implemented such policies as price controls, subsidies on basic goods, and cheap credit, partly as instruments to help legitimize the revolution. In the latter half of the 1980s, they saw the dialectic of such instruments: the legitimacy of the revolution was tied up with policies which were no longer sustainable.

The structure of this chapter differs slightly from that of the two previous chapters. As before, the chapter begins with an overview of economic performance. As changes in price policy were closely related to changes in the organization and role of the state, these two themes will be treated together, in sections B and C. Section B will examine the policy shift heralded by the 1985 economic plan, while part C will examine the hesitant application of economic reform throughout the 1985-1987 period. Sections D and E will, once again, examine relations with the bourgeoisie and the agrarian reform.

As the project of a state-dominant economy had affected all four issue-areas in prior periods, we shall see in this chapter that the desire to reorient economic policy also affected the FSLN's relations with the bourgeoisie and its agrarian reform strategy. We shall also see, however, that the FSLN was not free to reorient its strategy at will: its own constituency impeded both economic reforms and the attempt to wind down the agrarian reform. As a result, overall policy in the period appears chaotic.

A. Summary of Economic Performance

Nicaragua's economic crisis intensified during the 1985-1987 period. Both inflation and external imbalance escalated to levels unprecedented in the country's history. Real GDP fell in all three years (Table A.1). The total decline over the period was 5.8%. Per capita GDP fell by 14.8%, ending the period at just 52% of its 1977 level¹. Per capita private consumption fell 19.3%, dropping in 1987 to 35% of its 1977 level.

The war continued to have a large impact upon the economy throughout the period. Despite the FSLN's declaration in late 1985 that the contra had suffered a "strategic defeat" (see below), the war remained costly in both economic and human terms.

External Performance. During the period, Nicaragua's export sector continued its collapse. Goods exports, valued at \$385 million in 1984, reached a nadir of \$247 million in 1986, recovering slightly to \$300 million in 1987 (Table A.2). Current account deficits were in the neighbourhood of \$800 million each year. The 1986 current account deficit was over three times the value of goods exports.

This extreme external imbalance fundamentally reflected the collapse of export volumes, not terms of trade problems. According to ECLAC data, Nicaragua's terms of trade in 1986 were 14% lower than in 1977. The drop in export volumes for coffee, cotton, sugar and beef, on the other hand, were 38%, 58%, 29% and 90%, respectively (Table A.3).

Coffee output continued to be affected by the war situation, as the country's main coffee producing area of Jinotega-Matagalpa was also a zone of intense contra activity. Production was also hurt by a drop in yields reflecting the lack of care of plants in previous years. Cotton production was reduced as cotton land was converted to other uses, reflecting the squeeze between low world prices and increased prices for inputs. By 1986-

¹GDP per capita dropped 1% in the rest of Central America over the period. Latin America as a whole enjoyed a 4% increase.

1987, many observers calculated that cotton was costing more dollars to produce than it generated in exports (Evans 1987, 16)². In addition, a disturbing drop in yields was noted. Traditionally, the conversion of marginal cotton land to other uses automatically raised average cotton yields, since only the most productive lands remained dedicated to cotton³. Yields for the 1985-86 cycle, however, were the lowest of the 1980s (Evans 1987). Pizarro (1987) considers that, while climatological factors played some part in this result, so did factors such as the slow delivery of inputs to producers and the lack of spare parts for machinery.

The near-total disappearance of beef exports during the period reflected the twin pressures of declining cattle herds and the government's decision to sustain high levels of domestic consumption in some sectors. In the case of sugar, total output was actually comparable to the best levels reached in the 1970s. As with beef, domestic consumption pressures affected exports: as sugar was included in MICOIN's rationing card, any attempt to reduce domestic consumption was highly visible. The value of sugar exports was also affected by unstable world prices: in 1985, when Nicaragua completely lost its access to the United States market, sugar exports earned an average \$5.50 per quintal, a far cry from the 1981 peak of \$22.90 (Spoor 1987, 19)⁴.

While exports were hurt by the aforementioned factors, various unintended consequences of policy also played a role. ECLAC (1986) notes, for example, that price policy led to the "diversion of most of the [coffee] harvest to the domestic market." This points to one of the paradoxes of the attempt to construct a state-dominant economy: while the need for export-promotion was a constant of government rhetoric over this

²In the 1987 economic plan, cotton, once Nicaragua's main export, was no longer classified as an export crop, but as an instrument for producing such by-products as cooking oil, which would otherwise have to be imported.

³Thus, the expansion of cotton sowing lowered average yields in the 1975-1978 period, while the reduction of sowing from 1978 to 1982 corresponded with an increase in yields (Evans 1987, 9).

⁴In 1986 and 1987, average sugar prices recovered somewhat, and were over \$10.00 per quintal (ECLAC 1986 and 1987).

period, exports by their nature are more easily subject to government price controls than is domestic production (though some clandestine exporting did take place throughout the 1980s). Coffee producers found that the domestic unofficial market paid better prices than the state coffee exporting authority, and that it was relatively easy to move coffee into the unofficial market⁵. Attempts to address the problem through direct controls were counter-productive. In late 1986, the government announced that all coffee, including that not of export quality, must be sold to the state. This led only to an immediate rise in the unofficial-market rate of coffee, making sales to that market even more attractive (B 09-03-87).

Price policy had a similar impact on beef exports. ECLAC (1986) reported that clandestine beef slaughter had increased an estimated 24% in 1986, though total slaughter had been reduced by 20%. Apart from reducing beef exports, the clandestine slaughter also hurt such industrial sectors as leather goods, since many byproducts were wasted by the clandestine slaughterhouses. The problem of clandestine slaughter was accompanied by the illicit "sale of herds to neighbouring countries" (ECLAC 1987, 463). The value of cotton exports was hurt by the fact that producers were not rewarded for higher-quality production (ECLAC 1987, 466). In 1985 and 1986, observers detected a significant drop in the quality of cotton production⁶.

Difficulties in restraining domestic beef consumption also reflected the unintended consequences of policy: El Nuevo Diario (21-01-86) noted that in some state-sector cafeterias, workers were eating beef every day. Meals in the cafeterias were heavily subsidized, and represented a means by which institutions could compensate workers for

⁵This occurred at a time when the world price of coffee had risen substantially, and Nicaragua had attained a high quota from the International Coffee Organization (Aznar 1986, 9). While coffee entered the domestic unofficial market, Nicaragua found itself paying indemnities for the cancellation of coffee futures contracts it was unable to meet (Pizarro 1987).

⁶Pizarro (1987) notes that the percentage of cotton production classified as superior quality dropped from 73% for the 1980 to 1984 period to 44% in 1985-1986. See also SPP (1987).

the sharp decline in their real wages. A severe compression of the levels of consumption in these cafeterias would have driven even more workers out of the formal sector⁷.

Finally, exports were at times hurt by the complicated mechanism for assigning scarce foreign exchange. The mechanism, as Pizarro (1987) argued, worked better for large items than for what might be termed 'odds and ends'⁸. Thus, Pizarro noted, a state textile firm failed to fulfil a \$1 million export agreement because of an inability to acquire imported spare parts worth \$38,000. Similarly, shrimp exports were hurt by the lack of a relatively inexpensive imported chemical needed to keep the shrimp from being discoloured (END 29-09-85).

The geographical pattern of Nicaraguan trade continued to shift during the 1985-1987 period. The United States trade embargo imposed in May 1985 ended economic relations with what had traditionally been Nicaragua's chief trading partner. Nicaragua had to scramble to find new markets for exports, and new sources for strategic imports⁹. At the same time, Nicaragua's exports to the rest of the Central American region during the 1985-1987 period were down 85% in relation to 1977, reflecting both the loss of markets and supply constraints.

Trade with the Council for Mutual Economic Assistance (CMEA) countries, on the other hand, continued to grow. This reflected above all the increasing importance of CMEA aid for Nicaragua's imports. In 1985, Henry Ruiz announced an increase in CMEA cooperation for the 1986-1990 period, and held out the possibility that Nicaragua would join the CMEA after 1990 (FBIS 01-07-85). By 1986, over half of Nicaragua's

⁷The importance of this non-salary benefit was indicated in early 1987 when Managua municipal workers struck in protest at the quality of cafeteria food. Though there were indications at the time that the government was seeking to limit cafeteria subsidies to "strategic productive units," the striking workers won the issue (B 06-04-87).

⁸There is a parallel here with the difficulties of several socialist economies. Shmelev and Popov (1989, 82, 117) note the chronic shortages of "trifles" in the Soviet economy.

⁹The Minister for External Cooperation calculated that Nicaragua traditionally received 31% of its "essential inputs" for agriculture from the United States, including 90% of its imported seeds (B 24-10-85).

imports came from CMEA countries (ECLAC 1986). In the same year, 19% of exports went to CMEA countries. Thus, the remarkable gap between exports and imports was bridged by substantial levels of aid, three-quarters of it coming from CMEA countries (FBIS 23-04-87).

Of particular importance was Soviet oil aid. Nicaragua had been receiving oil on concessionary terms from Mexico, but in February 1985, Mexico announced a suspension of oil shipments pending payment of Nicaragua's outstanding debt¹⁰. The USSR quickly replaced Mexico, agreeing to sell oil on credit, and through the 1985-1987 period was directly or indirectly responsible for nearly all of Nicaragua's oil imports (Grayson 1985, 252; Bulmer-Thomas 1987, 256)¹¹.

As nearly all external aid was tied, Nicaragua suffered an extreme crisis of external liquidity. A low point was reached in early 1986, when the country had just \$30 million in liquid resources (Elizondo 1987). At the time it was calculated that 1986 exports would generate just \$120 million in liquid foreign exchange, equivalent to less than two months' imports (SPP 1986c, 8)¹². Throughout the period, on the other hand, remittances from abroad which flowed through the unofficial market were generally thought to be on the increase, given the large number of Nicaraguans who had left the country. Though impossible to estimate with accuracy, many believed that such

¹⁰It was widely reported that the United States pressured Mexico to cut off oil (e.g. NYT 20-06-87). Indeed, it is reported that the Reagan administration felt so strongly about Mexican oil shipments to the Sandinistas that in 1984 it considered sinking a Mexican oil tanker (B 14-01-88).

¹¹The USSR had apparently begun shipping oil to Nicaragua in 1984 (JPRS LAM-85-042). The 1985 increase in oil aid was negotiated during Daniel Ortega's May 1985 trip to Moscow, a trip that sparked complaints from United States congressional opponents of contra aid. Ortega defended the trip in United States media, noting that it was "fundamentally a response to Nicaragua's vital need for an oil supply" (NYT 21-05-85). Soviet oil aid was substantial, and allowed Nicaragua to increase its oil consumption from 4.6 million barrels in 1985 to 5.4 million in 1986 (JPRS-LAM-87-006).

¹²Exports that would not generate liquid resources included nearly \$70 million of exports to be used to repay debts to suppliers, including suppliers in CMEA countries such as Cuba, Poland, and East Germany. Another \$12 million in exports were committed to trade agreements with Bulgaria and Cuba.

remittances were of the same order of magnitude as Nicaragua's export receipts, leading one opposition figure to comment that "Now our most profitable export is people" (NYT 05-02-89)¹³.

The current account deficit naturally led to a continued rise in external public debt. Much of the increase in the debt, however, was due to rising arrears. By the end of 1985, the country had \$959 million in overdue obligations (SPP 1986b, 17)¹⁴. ECLAC (1986) calculates that, of the \$837 million increase in the external debt in 1986, \$548 million represented rising arrears. By the end of 1987, the external public debt stood at \$6,270 million, over twenty times the level of exports (ECLAC).

By the end of the period, it was clear that Nicaragua could not continue indefinitely accumulating debt and running massive trade deficits. The USSR had signalled its intention to limit its future aid to Nicaragua (see below). In particular, part of the oil previously destined for Nicaragua had been transferred to Eastern European countries, which left Nicaragua in the position of seeking oil aid from both the USSR and its European allies¹⁵.

Fiscal Performance. Though remaining high, the fiscal deficit declined in proportion to GDP throughout the 1985-1987 period (Table A.4). From 25% of GDP in 1984, the deficit dropped to 17% in 1987. The drop reflected a decrease in the ratio of government expenditures to GDP from 60% in 1984 to 44% in 1987. The drop in

¹³The New York Times estimated in early 1989 that annual family remittances totalled \$80 million (NYT 05-02-89). In evaluating the total economic impact of Nicaraguans abroad, however, one must also include "aid in kind": another report stated that travellers to Nicaragua were often asked to carry "dozens" of boxes of material with them, leading to back-ups of airline luggage of a week (NYT 27-01-89).

¹⁴This figure excludes renegotiated obligations.

¹⁵This information is based on conversations with officials in the Energy Department of the SPP. Interestingly, Nicaragua enjoyed some success in its pleas to Eastern Europe: the Minister of Energy announced in early 1988 that Poland and East Germany accounted for 29% of the oil aid that Nicaragua had up to that point negotiated for 1988, while the USSR accounted for the rest (FBIS 10-02-88).

government spending occurred after stricter austerity measures were imposed in early 1985, including a reduction in government subsidies on consumer goods. Government spending would have declined further but for an intensification of the war effort. Spending on defence and security increased from 23% of total government expenditure in 1984 to 42% in 1987. The latter figure represented "almost the entire fiscal deficit" (ECLAC 1987, 471).

The tax burden also declined during the period, despite a number of new taxes decreed at the end of 1984¹⁶. Observers attributed this decline to both an informalization of economic activities (SPP 1986b, 22) and to the difficulties of maintaining real government receipts in a time of high inflation (ECLAC 1986).

Monetary performance and inflation. For many Nicaraguans, the most notable aspect of the 1985-1987 period was the escalation of inflation. December-to-December inflation, as measured by the C.P.I., jumped from 50% in 1984 to 334%, 747% and 1,347% in the three subsequent years (Table A.5). In large part, as shall be seen, the increase in inflation represented a dynamic set in motion by the government's own attempts at economic adjustment. The ratio of M1 to GDP continued to rise, peaking at 57% in 1987.

B. Prices, the market and the state: the shift of early 1985

As was noted at the end of the last chapter, in late 1984 the National Directorate lacked consensus on the best response to Nicaragua's economic situation. The two broad options were understood to be an intensification of state control, or some form of "turn to the market." MIPLAN's draft economic plan for 1985, which never saw the light of day, advocated the first option. Prepared in October 1984, the plan recognized the severe

¹⁶An indication of the scope of the unofficial market was the new "tax on presumed income" (Decree 1534) aimed at self-employed professionals and merchants. The tax would be based on what individuals were "presumed" to be earning. In the case of individuals receiving dollar incomes, the law presumed that such dollars were being changed on the unofficial market, and determined "presumed" income on this basis. That is, the tax law presumed that people were breaking the currency laws.

problems facing the country. The state of the external sector was "extremely delicate" (MIPLAN 1984b, 1). Inflation was being stimulated by a "shortage of basic goods," the cost of defence, the "uncontrolled growth of the state apparatus," and by exchange rate loss (Ibid., 2f). Basic consumption had fallen to the point that "the very social base of the revolutionary process" was endangered" (Ibid., 8).

The plan recognized some of the negative effects of the pattern of economic controls. Price policy had discouraged basic grains production (Ibid., 18), and the "distortion of relative prices" had contributed to the growth of the informal sector (Ibid., 96). Nevertheless, MIPLAN recommended an intensification of control. The state must be reformed to guarantee "centralization, verticality, consistency, uniformity and harmony in the execution of policies and plans" (Ibid., 11). In general, MIPLAN argued, the government

should adopt measures that clearly ratify the popular nature of the revolutionary process and its indestructible commitment to the poor and humble of our country (Ibid.)

In an expression of impatience with policies thought to favour the bourgeoisie, the plan declared that "National unity must be understood in eminently popular terms" (Ibid.). The "popular" orientation for which MIPLAN was calling signified a rejection of greater reliance on market mechanisms.

This approach enjoyed the support of at least two influential members of the National Directorate, Planning Minister Henry Ruiz and his fellow former GPP leader, Tomás Borge, perhaps the most popular Sandinista leader among the general population¹⁷. In an October 1984 speech to the Sandinista Police force, Borge argued that

We have to take the reins firmly and put on our spurs if we intend to ride that runaway horse -- the law of value -- under the present conditions of our economic system (rpt. 1985b, 380).

Calling for an organization of "production and distribution with an unequivocal policy of

¹⁷It is probable that other Directorate members were sympathetic to the Borge-Ruiz position. Just days before the government announced massive price increases in February (see below), Victor Tirado commented that "I think it is possible to freeze and even to lower prices" (rpt. 1986, 113).

justice and democracy," Borge warned that the "greatest of errors would be to transform a tactic into a strategy," that is, to respond to the economic crisis in a way that lost sight of the revolution's "final objective" (Ibid., 379f).

Borge reiterated these concerns in a letter to his fellow National Directorate members in December 1984, in which he advocated an intensification of economic control on several fronts: state marketing needed strengthening, private merchants should be limited, state enterprises should be subject to a more centralized direction, the FSLN's presence within the state should be intensified, and MIPLAN's leadership of planning must be recognized to overcome "profound inconsistencies in the management of economic policy" (1984d)¹⁸.

But a shift in power was occurring within the National Directorate, through which both Borge and Ruiz would lose ground. The occasion of the shift was the choice of a presidential candidate for the 1984 election. The FSLN's option for a presidential model inevitably placed a strain on the National Directorate's collegial style of leadership, as one of the nine leaders would become sole head of state¹⁹.

The Directorate chose Daniel Ortega, in a decision that Humberto Ortega says was "finally unanimous" (H. Ortega et al 1986, 88). There were repeated reports of tensions within the Directorate over the decision²⁰. These reports suggested that Borge, as the "only living founder of the FSLN" and the most charismatic member of the Directorate,

¹⁸This position enjoyed much support at other levels of the FSLN. The "Trade Union Coordinator," made up of the leadership of the various FSLN union federations, also called for a strengthening of MIPLAN's position, and argued that the economy needed, not flexibility, but stricter control (Coordinadora Sindical 1985).

¹⁹Under the 1979 Fundamental Statute, the government junta constituted the collective head of state.

²⁰It also appears that outside forces sought to create such tensions. A group calling itself the "Committee for Prolonged Popular War" published a full-page advertisement in a Panamanian newspaper "nominating" Borge for president (FBIS 09-08-84). Elsewhere "Friends of Tomás Borge" committees sprang up. Borge denounced these committees as the work of the CIA (FBIS 06-09-84).

had felt that he was the logical choice for president²¹. A comment of the ever-blunt Humberto Ortega suggested that the very reasons for which Borge might have thought himself the natural choice created an obstacle for him: asked why Borge had not been chosen as the FSLN's candidate, Ortega spoke of the need to "combat *caudillismo*," and avoid the error of the original movement of Sandino, in which "a whole revolutionary movement fell apart because it was founded exclusively upon one person" (H. Ortega et al 1986, 87). The Directorate thus apparently feared that collegial leadership would founder altogether under a President Borge.

Upon his inauguration as president, Daniel Ortega announced a government reorganization in which MIPLAN was abolished and replaced by the Secretariat for Planning and Budgeting (SPP), under the direction of Dionisio Marengo, who had entered the FSLN through the Ortegas' Insurreccional Tendency, and who had most recently served as Minister of Internal Trade²². The SPP was to be allowed no illusions of becoming the dominant body within the state: it was constituted as a secretariat to the president and to the new National Planning Council (CNP), henceforth the main economic policy-making body in the state²³. This change in status led to the departure from the SPP of many MIPLAN veterans who felt that "planning should be planning," as one official told me.

The new SPP came complete with its own 1985 economic plan, prepared in late 1984 by a team of advisors working independently of MIPLAN. As this plan's analysis and policy recommendations formed the basis for new economic measures announced in

²¹Alaniz (1985, 261); Cruz (1989, 183). Cruz claims that the Ortegas won Wheelock's support for the choice of Daniel only by promising that Wheelock would be the FSLN's candidate in the next election.

²²Perhaps to soften the blow of his loss of MIPLAN, Henry Ruiz was made minister of the new Ministry for External Cooperation (formerly the International Fund for Reconstruction).

²³The Council had three National Directorate members: D. Ortega, as President, Wheelock, as head of MIDINRA, and Ruiz, representing the Ministry for External Cooperation. Other members were the Vice-President, the Minister of Industry, and the heads of the SPP and the Central Bank (FBIS 08-01-85).

early February 1985, we can examine the plan and the policy shift together.

As did MIPLAN's economic plans, the SPP's 1985 plan began with a recognition of various problems facing the Nicaraguan economy: a drop in the supply of goods and services, the deterioration of means of production and transport, inflation, a growing "speculative commercial sector," etc. (SPP 1985, 2). Unlike the MIPLAN analysis, however, the new plan had a much stronger "financial" orientation, manifested in policies to attack the sources of monetary emission, and a greater respect for the importance of relative prices. We will examine these two aspects in turn.

Controlling monetary emission. Among the problems facing the economy, the 1985 plan identified

The accelerated decapitalization of the National Financial System, which is linked to exchange rate loss, unrecoverable credits, and Central Government deficits (Ibid.)

Government deficits, in turn, were caused by "high defence spending, and an expansionary spending policy which does not correspond to the country's productive base." "We have wanted to do more than what is possible," the plan stated, "but now reality is imposing a readjustment of goals compatible with our possibilities" (Ibid., 6).

This theme of coming to terms with reality was predominant in Sandinista presentations of the new economic policy. The government's "principal economic error," the National Directorate argued, "was that we wished to do too many things at the same time" (Dirección Nacional 1985a, 3). The revolution had tried "to overcome poverty from one day to the next," commented Jaime Wheelock (1985c, 12). Whether or not the country's economic problems were due to an excess of revolutionary romanticism, the new rhetoric of realism signalled the leadership's belief that the "eminently popular" policies advocated by MIPLAN could no longer be sustained.

The plan thus recommended, and the government implemented, a number of measures to address monetary emission and reduce demand at a macro level. Subsidies

were eliminated on food and reduced on public transport²⁴. "State subsidies," the National Directorate declared, "which initially were so useful to defend the interests of the working people, now, because of shortages, only serve to increase the profits of speculators" (1985a, 3). A freeze was to be put on central government hiring, and the public investment programme was to be "rationalized" (Ibid.)²⁵.

The plan also called for a "rationalization of credit and exchange rate policy" (SPP 1985, 11). To address exchange rate loss, a devaluation was undertaken, which established multiple exchange rates²⁶. All but small agricultural producers would see the share of working costs covered by credit reduced from 100% to 80% (Cuadra 1985). Yet here a new policy contradiction was generated, one which Sandinista decision-makers never quite grasped during their decade in power. The contradiction emerged from a serious lacuna in the 1985 economic plan's analysis. Though it examined several causes of monetary emission, the plan did not touch on the question of negative real interest rates. Thus, the February 1985 measures called only for a minuscule increase in interest rates²⁷.

As noted in the previous chapter, negative real interest rates constituted a double

²⁴The plan had called for an elimination of all subsidies (SPP 1985, 11). We will see below that subsidies in fact lingered until mid-1988.

²⁵In an implicit critique of investment policy prior to 1985, the plan gave priority to projects that could come on stream quickly and not use capital-intensive technology (SPP 1985, 58). Given the tremendous backlog in the investment programme, however, it proved quite difficult to change the orientation of investment. By 1987, nearly the entire investment programme was made up of backlogged projects.

²⁶The basic exchange rate for exports was to be C\$28:\$1, while import exchange rates would vary from C\$20:\$1 for essential consumer goods to C\$40:\$1 for capital goods (Cuadra 1985).

²⁷Asked by an interviewer in 1990 why the 1985 plan did not address the problem of interest rates, Alejandro Martínez, one of the architects of the plan, commented that "One must take into account that in both the agricultural and industrial sectors, there were institutional interests, and a lot of political power. The question of interest rates touched on those sectoral ministries. Martínez went on to comment that "it was not prudent to have Commanders of the Revolution in charge of State ministries" (1990, 125f). The comment seems to indicate that a change in interest rate policies was blocked above all by the Minister of Agriculture, Jaime Wheelock, who was the only National Directorate member in charge of a "sectoral" ministry at the time. Wheelock's opposition may simply have reflected the traditional productionist orientation of MIDINRA.

problem: they contributed to monetary emission, and they made it impossible for agricultural producers to finance their own working costs by depositing their surplus in the banking system at the end of the agricultural cycle, since the real value of those deposits would be eroded before the next cycle began. As inflation accelerated from 1985 on, it would become increasingly difficult for producers to finance even a small portion of their own working costs, unless they had a non-cyclical source of income outside the agricultural sector itself. Thus, the policy of reducing the share of production costs financed by bank credit, which the 1981 economic plan had first demanded, continued to be unenforceable. The government would have another go at this in early 1988, once again without addressing the interest rate problems, with disastrous results.

Correcting relative prices. The SPP's 1985 economic plan identified

A situation of anarchy in the price system which provokes irrationality in the destination of products, discourages production and foments speculation and contraband (SPP 1985, 2).

The plan noted that official prices for producers were often lower than costs, and had not been adjusted with the required speed. It also noted that the wide gap between official and unofficial prices was making it hard to keep goods within the "secure channels" (Ibid., 8). The plan expressed particular concern over the relative deterioration of peasant prices, which had "discouraged peasant production, interrupted the normal interchange between the city and the countryside, and, politically, weakened the worker-peasant alliance" (Ibid., 9). The plan also noted the decline in real salaries, which had "encouraged the transfer of salaried workers to non-productive sectors," and led firms to use a variety of non-salary mechanisms to retain their work force, leading in turn to "distortions in the work relationship" (Ibid., 10f).

The plan thus called for "correction of the system of relative prices" (Ibid., 83). The devaluation was one element in this correction. In addition, producer prices would be increased, to "guarantee a reasonable margin of profit to productive activity" (Hüpper 1985). Real salaries would also be protected. The plan called for a preliminary salary increase to make up for 1984 inflation, followed by a 64% increase to compensate for the

predicted effects of the first round of economic measures (SPP 1985, 85). In early February, salaries were raised between 47% and 60% for workers at the lower end of the SNOTS scale, and 13% to 25% for those at the upper end. In March, there was an across-the-board 20% increase. If one deflates by the CPI, these two increases left real salaries close to their early 1984 level (Table C.14).

With the introduction of the new measures, there were repeated promises that real salaries would henceforth be stabilized²⁸. Salaries would be adjusted to compensate for price increases, and commissaries for "productive" workers would be strengthened (Cabrales 1985a). The adjustment in relative prices was thus presented as a shift from a policy of "indiscriminate subsidies for all" to decent salaries for productive workers and for "all who are making a working sacrifice for the Revolution" (Wheelock 1985c; Dirección Nacional 1985a).

This phrase captured the orientation of the new measures, which sought to protect the formal economy and material production from the perceived threat of a growing urban informal economy, and of unofficial commercial activities in particular. In the many official speeches and interviews that accompanied the new policies, there was not always a clear distinction between these two "threats," between the informal sector as a whole and unofficial-market "speculators." According to the new analysis, the previous economic imbalance had transferred purchasing power to the "informal sector" (Hüpper 1985), and it was now hoped that the new policies would

reorient wealth, which is now being left in the hands of speculators, towards the workers and producers, who are those who create this wealth (Dirección Nacional 1985a).

While various leaders attacked the "speculators" in their presentations of the new measures²⁹, many of the new measures would hurt the entire urban informal sector. Therein lay a key political risk of the new economic policy. While the 1985 economic

²⁸See Wheelock (1985c), Meneses (1985), Hüpper (1985), Dirección Nacional (1985a).

²⁹The National Directorate's statement on the new measures, for example, condemned the "dirty transactions of a stratum of parasites" (Dirección Nacional 1985a).

plan called for a "broad campaign against the informal sector" (SPP 1985, 82), the non-salaried sector in poor urban neighbourhoods represented an important part of the FSLN's constituency. There was thus a conflict between the economic goal of consolidating the formal economy, which was consistent with the overall project of a state-dominant economy, and the political history and base of support of the FSLN.

The new economic measures affected the non-salaried urban poor dramatically. Official meat prices were more than doubled, and the official prices of beans, rice and sugar rose 200%, 110% and 243%, respectively, in the same week. For some products, the increase in official prices did not affect consumers greatly, as it had been next to impossible before the price increase to find the product at the official price. Nevertheless, many Nicaraguans complained of being subjected to an economic "shock treatment"³⁰. While salaried workers were being fully or partially compensated for the costs of the measures, those in the informal sector wondered how they would make do.

It should be recalled that the FSLN's original option for price controls and subsidies on basic goods to promote popular interests, rather than salary increases, reflected its view that the "people" was a political reality much broader than the salaried sector. It now seemed that the FSLN was turning its back on this broad conception of its political base in order to focus on a narrower group. This appearance was somewhat deceiving, as the new policies were less designed to create a "privileged" group of salaried workers, as one official implied (Cabrales 1985a), than to help a group that had lost ground in relative terms. Nevertheless, much government and FSLN rhetoric left the impression that the non-salaried sector as a whole was being condemned.

Perhaps because of the political delicacy of the new measures, members of the National Directorate who were uncomfortable with the new policy direction refrained

³⁰There were attempts to prepare urban Nicaraguans for this shock prior to the announcement of the measures. In late January, my neighbourhood was convoked for a Sandinista Defence Committee (CDS) meeting, similar to ones taking place throughout the city. A CDS representative from the Managua regional office told us that "measures must be taken because we cannot continue in this desperate situation," and warned the neighbourhood that "tough days are ahead."

from public criticism. Though he had been a staunch defender of MIPLAN, Tomás Borge commented in February 1985 that the economic plans generated by MIPLAN prior to 1985 "were developed on the basis of our old dreams, not on the basis of a consistent project" (END 25-02-85), indicating his acquiescence to the new rhetoric of realism.

Nevertheless, both the political costs associated with the change of economic direction and the initial lack of consensus within the Directorate would soon lead to a softening of the new economic logic, and then to its eventual abandonment. Before examining this evolution, we will consider the question of the extent to which the new measures represented a "turn to the market."

Strictly speaking, a turn to the market would signify greater acceptance of the interplay of atomized demand and supply forces in setting prices, determining production priorities, etc. In this sense, the 1985 measures do not represent a turn to the market. In the public presentation of the new measures, government and party officials reiterated their determination to attack those forces which were weakening the state's capacity to guide the economy. The charging of higher-than-official prices, the transfer of goods out of the "secure channels," unsanctioned competition with state marketing agencies: all these phenomena were condemned under the loose heading of "speculation," which was to be confronted with renewed force³¹. Failure to defeat this foe would mean that "the economy will lose the popular orientation that the Revolution has conferred upon it," as Jaime Wheelock put it (1985c).

Similarly, the new policy on producer prices aimed to re-establish "a reasonable margin of profit" (Hüpper 1985), rather than allowing the market to determine price and profit levels. Thus, as Wheelock stated, the new measures sought to promote "containment and rationalization, order and control," virtues dear to the heart of all proponents of a state-dominant economy (1985c)³².

³¹SPP (1985, 8); Dirección Nacional (1985a); Wheelock (1985c); Hüpper (1985).

³²It was also hoped that these virtues would be promoted through the state reorganization. "Political competence," Daniel Ortega declared in January 1985, "must give way to administrative and technical competence" (FBIS 04-01-85). Ortega expressed

At the same time, however, the new policies indicated much greater respect for the existence and power of the market. The Nicaraguan economy, Wheelock declared, is "governed by the laws of the market" (1985c). This apparently simple statement reflected a heightened awareness among state and party decision-makers of the limits of state economic controls. Thus, in its presentation of the new measures, the National Directorate admitted that prices would rise, but argued that this would increase supply, "which is what, in the end, will allow prices to be stabilized" (Dirección Nacional 1985a). Despite all the rhetoric on attacking "speculation," it was now recognized that the forces of supply and demand could overwhelm price controls.

Greater recognition of the market's power was also present in the types of measures being proposed to contain that power. Analogously to the "parallel market" for basic goods established in late 1984 (see chapter 6), the new "parallel market" for foreign exchange sought to confront the unofficial market by displacing it. This new currency mechanism would deal with "all transactions that cannot be handled by the controlled official market" (Cuadra 1985). That is, foreign exchange that the government could not capture directly through its control of goods exports could now be traded in government exchange houses at a rate to be "determined by supply and demand" (Ibid.). This rate, in the original conception of the parallel market, would be adjusted daily (SPP 1985, 74).

This measure, as well as the increases in producer prices and elimination of subsidies, reflected in part the belief that the unofficial market should fundamentally be attacked by squeezing its profit margins³³. Success in attaining this objective would make formal sector employment attractive again, by reducing the incomes that could be earned through arbitrageur activities (SPP 1985, 113).

the hope that the reorganization would allow the executive branch to "exert overall control over Nicaragua's economy" (FBIS 04-02-85).

³³The Minister of Finance even suggested that all official prices would equal market-clearing prices (Hüpper 1985), but this was not the general view of the new strategy.

Thus, one sees in the economic policies of early 1985, rather than a "turn to the market," a greater recognition of the power of market phenomena in the Nicaraguan economy, and a recognition of the importance of the price mechanism. The new strategy called for, not a capitulation to the market, but a new strategy for confronting it, one that sought to attack unofficial-market profits by decreasing the margins between official and market-clearing prices, and sought also to contain state dis-accumulation. In terms of the concepts presented in chapter four, we can view the measures as a partial shift towards an "accumulationist" perspective, away from the "alliance-building" that had hitherto dominated policy.

When the measures were announced however, many observers had a different view of the matter. Distinctions between reliance on the market and recognition of the market's power, between increased concern for financial performance and a "monetarist" orientation, or between economic adjustment and an "IMF recipe," were not clearly drawn in the minds of many observers, and perhaps not even in the minds of all decision-makers. However loose the conceptual categories wielded by many observers and decision-makers, these categories were much more politically influential than the sorts of distinctions presented here. With the introduction of the measures, Saldinistas heard their leaders speaking a hitherto shunned language: the main economic problems of the country were suddenly being analyzed with the concepts of "supply" and "demand," and even the recognition of the power of the market in Nicaragua seemed to many to mark an ideological "retreat"³⁴. Thus, it is not surprising that one local magazine felt the need to publish a long and detailed explanation of the difference between the new economic

³⁴There was a widespread view in Nicaragua that a society bound for socialism had no need to study such things as price theory. The first class I gave in Microeconomics in the National Autonomous University of Nicaragua, in April 1984, was marked by a long discussion of whether concepts such as supply and demand should be taught at all. Upon the announcement of the 1985 measures, some microeconomics teachers, who had long laboured under the opprobrium of teaching an obsolete and reactionary course-- a course originally titled "Bourgeois Economics I"--, were exultant. "And they said microeconomics was garbage, that it was bourgeois economics," crowed one colleague, "now look what's happening: even the leaders are talking about supply and demand."

measures and I.M.F.-type stabilization recipes (PP 03-85)³⁵. The perception that the new measures did in fact represent a "turn to the market" would add to the political problems associated with the measures in the coming months.

Crisis of the 1985 plan. For the measures quickly did run into difficulty. FSLN and mass organization activists working in the popular *barrios* warned that the measures aimed at weakening the informal sector were also weakening support for the government among the popular classes. Such a development was dangerous at a time when the popular *barrios* were expected to contribute a significant number of young men to the military service.

A key economic concern for decision makers was that the rate of inflation triggered by the measures was much higher than anticipated. The SPP's economic plan had recognized that devaluation, increases in producer prices and salaries, the reduction of subsidies, and the attempt to reduce margins between official and unofficial prices would generate some immediate inflation, but had expressed the hope that this would be contained by a reduction in "the fiscal-financial deficit, which would begin a trajectory leading towards greater stability and control over the price system" (SPP 1985, 83). Inflation would be pushed via costs, but restrained via demand. The plan thus projected an overall jump of 84% in the CPI (Ibid., 103f).

But this projection assumed that the compression of demand would be so significant that the overall price system would be relatively "inelastic" with respect to changes in such variables as the exchange rate or salaries. It was thus assumed that it would be a relatively easy thing to overcome the price distortions that had been allowed to develop over the previous years. That is, it was assumed that those prices that were not

³⁵Daniel Ortega himself declared that the main difference between the government's approach and the typical IMF package was the existence of "initiatives to guarantee the workers' real salaries" (FBIS 19-03-85). The comment is ironic, as these guarantees broke down within months (see below). But it is suggestive that the president should have reduced the difference between two fundamentally distinct adjustment strategies to this one point.

officially controlled would "stand still" long enough to allow official prices to "catch up," a real devaluation of the currency to take place, and real salaries to recover somewhat.

But this optimistic forecast was not borne out, and it quickly appeared that an "adjustment spiral" in the level of prices was being generated. In the February-April period, the CPI rose 51%³⁶. At the beginning of May, salaries were increased 45% to compensate for the inflation, in keeping with the logic of the 1985 plan. But inflation wiped out this increase within 30 days. The 46% increase in the CPI in May brought the total increase since February to 121%, and led decision-makers to fear that they were on the verge of triggering hyper-inflation. At this point, the brakes were put on the adjustment programme.

The inflationary impact of the adjustment had much to do with the fact that it was undertaken in 1985 rather than one or two years earlier. The government was trying to rectify substantial distortions brought on by stagnant salaries and an increasingly overvalued *córdoba*. Had those distortions been tackled earlier, they would have been much less severe, and the resulting "adjustment spiral" could probably have been avoided³⁷.

By the end of 1985, there were ample signs that the logic of the 1985 plan had been abandoned on several fronts. Salaries had not been increased since May, despite a 150% increase in the CPI in the June-December period. The official exchange rate was also stagnant, allowing exchange rate loss to escalate and price distortions to re-emerge. The parallel market for foreign exchange, which was originally conceived as a replacement of the unofficial market, was not performing this function: while the unofficial-market rate for the dollar was roughly equal to the parallel rate in May, by

³⁶As was noted in chapter one, the bias of the CPI towards official prices led to a probable overstatement of inflation during this period.

³⁷The "adjustment spiral" will be examined further, below.

December it was 33% higher (Spoor 1987, 30)³⁸. Not surprisingly, the parallel market became relatively marginal: in December 1985, it traded a little over \$500,000, a small fraction of the amounts thought to be moving in the unofficial market (END 21-01-86)³⁹. By way of comparison, in the second half of 1990, when the parallel rate was almost identical to the unofficial-market rate, the exchange houses purchased an average of \$12.6 million monthly (*Análisis*, no. 5, January 1990).

Similarly, the gap between official and unofficial prices had widened rather than narrowed. In December 1984, open market prices for food products were 105% higher than official ones. By April 1985, this gap had closed to just 10%. But with the freeze in the adjustment programme, by the end of 1985 the gap stood at 218% (SPP 1986b, 36). Instead of gaining ground, official prices for agricultural production were rising more slowly than the CPI. The official prices of peasant crops such as beans and corn had dropped nearly a third when deflated by the CPI (*Ibid.*, 40). According to SPP data, average prices paid to manufacturing sector producers fell by 25% in relation to the CPI in 1985. They fell a further 35% in the first half of 1986, thus suffering a cumulative drop of 51% relative to December 1984.

In early 1986 there was an attempt to renew the process of adjustment. In January, salaries were increased an average of 89%, and the *córdoba* was devalued through the establishment of a unified exchange rate of C\$70:\$1 for almost all goods imports

³⁸By April 1986, the gap had widened to 72% of the parallel rate. Policy shifts would create more pressures to allow the parallel rate to lag behind the unofficial market: in January 1986, it was announced that groups receiving donations in dollars, tourist sector businesses, and some other groups could convert their dollars into *córdobas* at a rate equal to the average of the official and parallel rates. This created an incentive for the government to allow the parallel rate to lag behind the market-clearing rate.

³⁹Rather than replacing the unofficial exchange market, the exchange houses created a new informal sector activity: "liners-up" (*fileros*). As the parallel market rate was increasingly below that of the unofficial market, it was an easy matter to sell one's dollars at the exchange houses. Buying them there was rather more difficult; hence the "liners-up." By July 1987, these enterprising individuals would line up in front of the exchange houses, then sell their place in line for C\$500,000, the equivalent of seven months average salary at the time. The "liners-up" claimed that lines were as long as two weeks (END 09-07-87). The "liners-up" exemplify the capacity of the informal sector to commodify pretty well anything!

except petroleum. These measures were not accompanied by a sharp increase in the CPI: the annual rate of inflation during January-February was 269%, slightly below the 1985 rate. In March, salaries were increased 50%, official prices on a range of consumer goods were raised, and the exchange rate for petroleum imports was raised to the C\$70:\$1 level. Whether because of these measures or not, the CPI jumped violently⁴⁰, and, as in 1985, the government reacted by quietly suspending the adjustment process.

Basic grains and the peasantry. But if the overall logic of the 1985 economic plan had been abandoned, this does not mean that there had been a simple return to pre-1985 economic policy. As noted in the previous chapter, Sandinista leaders had become concerned about the problem of peasant disaffection and its contribution to the contra's strength. It was thus believed that changes in policies affecting the peasantry would contribute to the defence effort. Despite the slow movement of official prices for peasant crops through 1985, important steps were taken to address peasant alienation. The improvement in the supply of goods to the peasantry at official prices, in which UNAG would play a crucial role, sought to rectify a critical error in early Sandinista policy⁴¹.

Equally important was the government's March 1985 decision to liberalize basic grains trading, beginning in the regions most affected by the contra. Jaime Wheelock commented that "The State could not fight with everyone, taking the maize and bean harvests from peasants while we were fighting a counterrevolution" (1986c, 53)⁴². This policy met with some resistance on the part of those government officials responsible for

⁴⁰The CPI increased by over 40% in both March and April. Overall, the CPI increased more in the first half of 1986 than in all of 1985.

⁴¹It also meant that the inflation actually experienced by the peasantry in 1985 and subsequent years was probably lower than that registered by the CPI, since the peasantry was enjoying improved access to goods at official prices.

⁴²Carlos Zamora, chief representative of the government and the FSLN in the Matagalpa-Jinotega region, recognized that the liberation of peasant products was undertaken because "It was necessary to begin by stopping the deterioration in the rural sector that was threatening our power" (JPRS-LAM-87-059).

urban questions, and would fluctuate somewhat in 1986-1987⁴³. While it relaxed formal controls on the basic grains market, the government maintained informal pressures on production cooperatives and the peasantry in general to sell to the state⁴⁴. Nevertheless, from this time on the state was generally unable to supply beans to individual consumers⁴⁵.

The sequence of policy shifts on the question of grain trading exemplifies a sequence that would occur with economic policy in general. The pre-1985 period was characterized by a policy of coercive administrative controls on grain trading, with official prices that were stagnant and quite unrelated to market-clearing levels. The 1985 economic plan called not for a use of the market mechanism in grain trading, but for the setting of higher official prices, in recognition of the power of the market. These higher prices would make state-administered trading both more effective in capturing grain and less coercive from the peasantry's point of view. But this policy was soon abandoned for one that assigned a much greater role to market competition.

In fact the approach of the 1985 plan hid a policy dilemma. If the higher official prices called for under the plan were meant simply to restore a "reasonable" margin of profit, then official prices could well continue to lag behind market-clearing ones, particularly if key elements of the cost structure of production such as interest rates or the

⁴³In a confidential speech in July 1985, Internal Trade Minister Ramón Cabrales complained that the policy had left the state unable to buy enough basic grains to keep the urban "secure channels" supplied. ENABAS, the state grain marketing company, was authorized to buy beans at C\$2,500 per quintal, Cabrales said, while the unofficial-market price was between C\$5,000 and C\$6,000.

In the same speech, Cabrales complained that "There is no price policy." MICOIN, he said, was only finding out about new prices for producers when MIDINRA announced them in the newspaper. Hence, consumer prices had become "nothing more than the resultant of the various ministerial and enterprise decisions" (1985b).

⁴⁴Thus, in speeches to an UNAG assembly in early 1986, National Directorate members spoke of the peasantry's moral responsibility to "sell the State part of your production at official prices, so that we can offer it cheaply to the workers" (Carrión 1986, 20; Wheelock 1986c, 54).

⁴⁵As noted in the previous chapter, maize had already generally been assigned to urban tortilla makers, rather than being sold directly to consumers.

exchange rate were being held well below market levels. But in this case the state would either have to continue to use coercion to capture grain from the peasantry, or fail to capture it altogether. On the other hand, had official prices tracked their market-clearing levels, as Finance Minister William Hüpper suggested they would (see above), official consumer grain prices would have had to jump with every deterioration in the market situation, thus increasing urban discontent⁴⁶.

Given these options, it would appear that decision-makers saw liberalization of grain markets as the least politically-costly option at the time. It removed a source of tension in relations with the peasantry, and, by sending urban consumers into the unofficial market in search of beans, made them more liable to blame "speculators" than the government for high prices.

Market liberalization did not remove the state from the beans and maize business altogether. It still captured the two products from state farms, cooperatives, and peasants who were willing to sell part of their harvest to ENABAS⁴⁷. The state continued to receive foreign donations of the two products, and the "Contingency Plan" was beginning to produce basic grains that were immediately captured by ENABAS.

An increasing share of the domestic and imported grains captured by the state, however, was required for various forms of "institutional" consumption. ENABAS was responsible for supplying basic grains to the armed forces, government and industrial

⁴⁶This analysis applies specifically to maize and beans, the two basic grains traditionally produced by the peasantry. It was easier for the state to control rice, the bulk of which was produced by large state and private producers. It was even easier to control wheat distribution, since all wheat was entering the country through official donations.

⁴⁷UNAG was encouraging peasants to continue to sell part of their harvest to ENABAS, reminding them that the state was providing them with their inputs at official prices (END 08-03-87). There does not appear to have been, however, any formal *quid pro quo* in this respect, though government officials often discussed establishing one (e.g. Cabrales 1985c; Wheelock in B 09-01-87).

cafeterias, and agro-export farms, particularly during the harvest period⁴⁸. A significant share of national basic grains production remained entirely within the state sector: produced on state farms under the "Contingency Plan," marketed by a state agency, and ending up in the bellies of state workers and soldiers.

Calls for renewed control; attacks on "speculation". Despite the overall abandonment of the logic of the 1985 economic plan, then, Sandinista leaders could point to positive elements in the year's policy shifts. In particular, the leaders felt that changes in price and distribution policies affecting the peasantry, as well as changes in agrarian reform policy (discussed below), had contributed to what was being termed the "strategic defeat" of the contra⁴⁹.

Nevertheless, with the abandonment of the 1985 plan, there appeared to be no clear overall economic policy. The contradictions generated by the 1985 plan's strategy of respecting the power of the market prompted, not surprisingly, calls for an intensification of state control over the economy. In a confidential speech in July 1985, Internal Trade Minister Ramón Cabrales lamented that "The mixed economy policy keeps us from laying the bases of a new society." Cabrales called upon the state to "neutralize the politically

⁴⁸The two peasant crops were a vital "input" for the agro-export sector. When I picked coffee in early 1987, our daily diet invariably consisted of three servings of beans and tortilla, with rice added only at lunch.

⁴⁹Humberto Ortega (1985) defined this defeat in terms of the "impossibility of the mercenary forces developing themselves as a military threat to the Revolution," and compared the weakened contra to "parasites," with which "one can live for a long time without dying."

This apparent "strategic defeat" was perceived by foreign observers as well. The New York Times noted in early 1986 that the contras had retreated to their camps in Honduras, that their activity "has declined sharply in recent months," and that the government was "in its strongest military position since it took power" (NYT 30-01-86; 21-02-86).

If new policies towards the peasantry contributed to this "strategic defeat," so too did strictly military factors such as the consolidation of military service and the introduction of Soviet MI-24 helicopters in late 1984. The latter gave Sandinista troops much greater mobility, and led the contra leadership to press the United States for anti-aircraft missiles (NYT 21-02-86). It is important to note this technological factor in the war's evolution, since the contra acquisition of advanced SAMs in 1987 would lead to another shift in the military situation (see below).

vacillating class of large merchants," arguing that his ministry should take over all wholesale trade in the coming years (1985b). A national assembly of the FSLN unions called in September for a "reinforcement of economic centralization," and for the "reduction and control of the prices of basic products" (Asamblea Nacional de Sindicatos 1985).

Given these sentiments, and the political concerns generated within the FSLN and in the population at large by the 1985 plan's perceived "turn to the market," the situation was ripe for implementing the plan's call for a resolute attack on "speculation." Under the state of emergency declared in October 1985, many private merchants and importers ("buhoneros") were arrested for alleged links to the contra (Cabrales 1985c; END 19-10-85).

The government also launched its most resolute attack yet on Managua's Eastern Market, heart of the unofficial market, an attack which had been debated within the government and popular organizations for three years (Cabrales 1985b). Both to increase the effectiveness of the attack and to reduce its political cost, the government applied a policy of divide and conquer, by seeking to force out of the market only those merchants who had been there less than five years. The police and MICOIN set about expelling thousands of merchants from the market, and reducing the market's physical space substantially. By early 1986, the Eastern Market had been physically reduced from a space of some thirty-five hectares to under three hectares (END 19-2-26). All terminals for rural buses that used to end in the Eastern Market were transferred to other points in Managua, to disrupt links between rural intermediaries and urban "speculators" (END 31-01-86). Overall, the government claimed that the number of merchants in the market had been reduced from 20,000 to just 3,000 (B 23-02-86)⁵⁰. When the Eastern Market had been re-ordered to the government's satisfaction, attention was turned to Managua's

⁵⁰No one knows exactly how many vendors had operated in the market. In mid-1985, Cabrales held that the market contained: 1,500 legal merchants, 7,500 petty vendors, 6,000 illegal merchants, and at least 1,500 "fences" (Cabrales 1985b).

Wholesale Market, where the same five-year criterion was to be applied to separate wheat from chaff. It was estimated that the number of wholesalers operating there would be reduced by half (END 19-2-26).

While these measures were undertaken with great fanfare, and did change the face of the Eastern Market for a time, it is not clear that any serious reduction in "speculation" resulted. Personal observation suggests that containing the unofficial market proved somewhat analogous to picking up mercury from a broken thermometer: activity was dispersed more than eliminated. Thus, the shrinkage of the Eastern Market was accompanied by a significant increase in the range of products sold by mobile vendors on the streets of the popular *barrios* of Managua. In any case, by early 1987 it was reported that some 3,500 illegal merchants had returned to the Eastern Market (END 21-01-87).

Tensions in the 1986 and 1987 economic plans. Pressure for renewed state control were manifested in the SPP's 1986 and 1987 economic plans, though in an erratic fashion. The 1986 plan was a rather incoherent document that manifested the general policy vacuum that had arisen in the wake of the abandonment of the 1985 economic measures. The plan recommended that exchange rate loss be reduced, yet was unwilling to propose a policy that would accomplish this objective. It ignored, once again, the problem of negative real interest rates. On the question of price policy, the plan returned to the sort of incoherence typical of the later economic plans of MIPLAN: price "distortions" should be reduced, prices should stimulate production, yet price policy should also aim at protecting real wages. Essentially, the plan simply listed all the desiderata of price policy, rather than confronting the need to choose among them. The plan declared that "Consumer prices should rise in proportion with producer prices," without providing a strategy for attaining this result, offering only the cryptic promise that inflation would be controlled by establishing "profit levels in accordance with the economic reality of the country." The section on price policy urged that the "secure channels" be broadened, while the section on distribution policy urged that they be reduced to a few key products.

Reflecting the constituency promoting renewed state control, the plan called for a greater centralization of import decisions, and the use of material balances to determine import needs in each sector (SPP, 1986a)⁵¹.

Similar tensions were manifested in the 1987 economic plan. In August 1986 the National Directorate and the Sandinista Assembly had issued an internal party document which called for, among other things, greater state control over production and distribution. The state productive sector, the document declared, should become the "articulating and hegemonic force" for all production (Dirección Nacional y Asamblea Sandinista 1986). The SPP's 1987 economic plan explicitly took this FSLN document as its basis, even borrowing the exact wording of the document at times. The plan called upon the state to increase its "directive capacity" over the economy (SPP 1987, 2), and promoted an "organic centralization" of state decision-making, in which all key economic decisions would be made only in consultation with the National Directorate (Ibid., 11)⁵².

On the other hand, the plan also called for better treatment of non-state producers, and greater participation of those producers in the planning process (SPP 1987, 9f). It also recommended greater autonomy for APP companies (Ibid., 8). In the area of prices, the plan was sceptical of the possibility of controlling prices in what it called the "commercial" market until the fiscal deficit had been brought under control. Rather than advocating strict price controls, the plan recommended that prices for all but essential goods move to market-clearing levels, and that the state use indirect taxes to capture the margin between costs (plus "reasonable" profit) and market prices (Ibid., 200f).

State enterprises. One of the areas manifesting the tensions of the new economic

⁵¹Some officials in the SPP's External Sector division reasoned that, since over half of Nicaragua's imports now came from CMEA countries, it was both possible and necessary to impose CMEA-style planning.

⁵²The published "summary" of the 1987 plan omitted this reference to the National Directorate, as well as references to the FSLN's August 1986 document on production and distribution, perhaps to veil the 1987 plan's quite explicit fusion of party and state roles (INIES 1987).

policy was that of state enterprises. Previous chapters noted the generally "productionist" orientation of state firms, to the detriment of a more "accumulationist" orientation that would be sensitive to the problem of financial returns. The 1985 policy shift sought to address this imbalance. State firms, declared the National Directorate statement introducing the 1985 plan, "must become examples of efficiency, saving and productivity" (Dirección Nacional 1985a). Jaime Wheelock called upon state companies to "measure the results of their economic management just like any private company" (1985b), and in March 1985 he warned directors of state companies that they would be shut down if they did not show a profit in 1985 (END 07-03-85). Victor Tirado repeated the same threat in early 1986 (rpt. Tirado 1986, 123). Like many threats issued by the Directorate, this one was not actually implemented, but it served to indicate a shift in policy towards state firms.

The new focus on financial results did bear some fruit. In 1986, the electrical and phone companies operated without deficits, and the latter even generated a surplus (ECLAC 1986)⁵³. In early 1987, Jaime Wheelock claimed that "the majority of State companies -- with a few exceptions -- are now profitable" (B 27-04-87). Transfers from the government to state firms thus declined from 7% of GDP in 1984 to just 1% in 1987 (Kleiterp 1989, 97).

To a great extent, however, these profits were illusory, reflecting a highly distorted cost structure and problematic accounting practices. Firms were calculating depreciation costs based on the original *córdoba* value of their equipment. As inflation escalated, this meant that firms effectively stopped including the cost of replacing machinery in their total cost calculations. In addition, the import costs of state firms were depressed by the over-valued *córdoba*. Thus, part of the profits of state firms simply reflected the exchange rate loss of the state complex as a whole. A third factor depressing

⁵³In the highly inflationary situation that was developing, these results could change quickly. In late 1987, an official with the state power company claimed that the consumer price of electricity covered only one-sixth the cost (END 20-10-87).

costs was the sharp reduction in real salaries since late 1984.

In 1987, four of my students from the National Autonomous University examined costs and profits in five state textile companies. Applying shadow depreciation and import costs, the study concluded that the total profits of the five companies in mid-1986 were reduced by approximately 65% (Avilés et al 1987). Had the firms also had to pay nominal salaries that maintained real earnings at their December 1984 level, total profits would have disappeared altogether.

Thus, the fact that state companies were earning profits did not mean that the state complex was being strengthened at the expense of the unofficial market, as the 1985 plan had intended. While the state textile companies were content to earn a profit of C\$40 per yard of cloth, the gap between the official consumer price for cloth and the unofficial-market price was over C\$4,000 per yard. Thus, if only 5% of state-produced cloth "escaped" to the informal market -- a very conservative assumption -- unofficial-market intermediaries would earn over five times as much as the state companies (Ryan 1987b, 25).

However illusory state profits may have been, the focus on financial results did call for new forms of behaviour on the part of state managers. This call was ratified in the 1987 economic plan, which promised that the state firms would be "self-financed, and freed of all tutelage on the part of the [state] institutions with which they are associated" (SPP 1987, 8). The companies, the plan promised, would operate on the basis of "liberalized prices," and seek greater profits (SPP 1987, 194).

But the government and the National Directorate had not really faced the problems related to the stress on financial results. Signalling the new focus, Jaime Wheelock had exhorted at the end of 1984:

from the Director of the company to the workers: let everyone be concerned, let each one be like a little capitalist, concerned about the labouring society. The socialist mode of production is really this worker with great awareness of the need for profit, but in a collective form, a non-contradictory form... (1985b).

Wheelock was articulating the ever-frustrated hope of state socialist leaders everywhere

that state firms could focus on profits, just like "capitalists," while selflessly promoting a series of other objectives identified with the common good of society.

But there were numerous signs that state companies were responding to the stress on finances by engaging in forms of behaviour that frustrated other state objectives. Because the government had not been willing or able to close the gap between official and unofficial prices, the easiest way for a state manager to increase profits was to slip a certain portion of production out the back door into the unofficial market. Internal Trade Minister Ramón Cabrales complained in July 1985 that agricultural firms under the control of MIDINRA were breaking marketing agreements with his ministry in order to sell in other markets. Other state companies, he charged, were holding back produce in order to force the government to increase prices for producers (1985b)⁵⁴. Thus, the pressure on state managers to produce profits was in conflict with the policy of using the state firms to keep the "secure channels" supplied.

As has occurred in various socialist reform experiences, the conflicts between profit and other objectives, as well as the irrationalities generated by profit-maximizing behaviour in the presence of a distorted price system, led the government to engage in interventions that contradicted its policy of increasing company autonomy and encouraging state profits. These interventions frustrated company managers who had been promised autonomy: the Director-General of a state textile firm complained that "I am nothing more than a messenger" (D. Ortega et al 1987b).

One crucial intervention concerned state trading companies. Despite the new orientation, "profit" remained a dirty word for many FSLN cadres. Marketing profits were especially transparent, since FSLN unions could identify the prices at which products

⁵⁴As the minister responsible for getting production into the "secure channels," Cabrales was acutely aware of the breakdown in relations between state enterprises and the government. He commented in early 1987 that

In reality, there is no ministerial control. We turn the raw materials over to the enterprises and the producers, but no agreements are established as to what they in turn will supply to the state.... We do not know for certain how much is produced; we do not know if all that is produced is delivered to us (JPRS-LAM-87-027).

were leaving state production companies. In September 1985, the FSLN unions criticized the Ministry of Internal Trade for its alleged 35% mark-up on products sold in the "Workers' Supply Centres" (END 26-09-85)⁵⁵. Within days, prices in these centres, which were already but a fraction of unofficial-market prices, were dropped 25% (END 01-10-85)⁵⁶. The unions' position was soon ratified by the National Directorate, which stipulated that companies run by the Ministry of Internal Trade should earn little or no profit (Dirección Nacional 1985b).

The political sensitivity of price increases by state firms led to other interventions. When salaries were increased by 58% to 100% in January 1986, Jaime Wheelock, who by this point had gained significant authority within the National Planning Council⁵⁷, ordered state industries to absorb the increase without raising prices (B 03-01-86). The 1987 economic plan's statement on producer prices manifested the same tension between encouraging state profits and avoiding the appearance of state profiteering. Prices, the plan declared, should allow for "a reasonable profit (not less than the rates of interest on bank deposits applicable to the sector)" (SPP 1987, 35). But with real rates of interest increasingly negative, this statement suggested that state companies were not really going to be allowed to earn much in the way of profits, and would in fact continue to represent a drain on the state complex⁵⁸.

⁵⁵On the "Workers' Supply Centres," or CATs, see below.

⁵⁶This led to an enormous influx of customers which cleaned out the centres within days.

⁵⁷Barricada reported in January 1986 that Wheelock was "responsible for production, employment and salaries within the National Planning Council" (B 03-01-86). This would seem to make Wheelock, after Daniel Ortega, the National Directorate's most powerful voice on economic questions.

⁵⁸As noted in the previous chapter, if the rate of profit is lower than the rate of inflation during the cycle of production, the enterprise is losing real purchasing power, rather than generating it. If it borrows money from state banks, this real loss can be transferred to another part of the state complex, yet still represents a loss for the state as a whole.

Finally, though there was a severe shortage of labour throughout the formal economy as a whole, the profit orientation was not allowed to threaten employment in any specific sector. Daniel Ortega admitted in mid-1987 that many industries were working at 60% capacity, but promised that this would not lead to lay-offs, as the government did not wish to create unemployment (B 19-07-87).

Thus, a series of tensions remained in government policy towards state enterprises, despite the greater focus on financial results that emerged from the 1985 economic plan. Many of these tensions would be resolved in favour of an intensified financial orientation in the 1988-1989 period, which will be examined in the next chapter.

Salary Policy. If the handling of state enterprises was an area of tension for the government, salary policy was one of grave crisis. We have seen that, despite the 1985 economic plan's promise to protect real salaries from the effects of inflation, nominal salaries were frozen after May 1985. After two increases in early 1986, salaries were frozen again for the rest of that year. By the end of 1985, salaries deflated by the CPI were at just 50% of their December 1984 level. By the end of 1986, they had fallen to just 16% of that level.

This state of affairs raised the discourse of the National Directorate to its most voluntarist level. In a speech to workers in mid-1986, Victor Tirado commented:

Why, if you work eight hours today, can't you work ten tomorrow? Let's not turn it into a question of salaries, but of ideology. If we look at salaries, the workers have a 100 year old tradition... All the strikes that have occurred in Latin America in the last three years have been around salary demands; in those countries such demands can be just, but in a revolution they pass into history (1986, 143).

Jaime Wheelock criticized the "conservative, economistic and reactionary view that the worker can only be brought to the workplace through money, through mercantile mechanisms, and not through revolutionary demands." Such a view, Wheelock proclaimed, "is based on an erroneous tendency to underestimate the revolutionary role of the people" (B 27-10-86). National Directorate members called upon workers to think of the soldiers

off fighting the *contras* before they lamented their own situation:

Our combatants don't ask for higher salaries, or better houses or more food. They have a high consciousness, and a political understanding of their role within this great revolutionary process (Tirado 1987).

Yet the leadership was aware that this proclamation of the revolutionary potential of the people, of its capacity to transcend mere economic concerns, was to a large extent whistling in the dark. Everywhere there were signs of the impact of declining real salaries. An internal SPP evaluation of 1985 noted that production in the major state textile companies had dropped 15%, due in large part to "resignations and a drop in productivity because of disagreement with salary policy" (SPP 1986b, 59). Internal SPP data indicated that the government and state companies were losing and trying to replace over one-fifth of their labour force each semester. The labour turnover was as high as 40% per semester in the textile sector, which was expected to play an important role in the defence effort. At the *Victoria de Julio* sugar project, one of the show-pieces of the revolution, seventy-five out of 300 specialists trained in Cuba quit, most of them in order to enter the informal sector (B 08-01-86). Workers who might have gone to the coffee harvest in earlier years now preferred to stay in provincial towns, running their petty commercial activities (B 10-10-85).

Asked why the government had compressed real salaries so severely, Daniel Ortega admitted that salaries represented the only variable over which the government still had much control (D. Ortega et al 1987b). But salaries were more easily controlled in part because the various FSLN unions of salaried workers, unlike FSLN activists working in the popular *barrios* and in other FSLN organizations such as UNAG, showed little interest in defending their constituencies' "immediate interests." In August 1986, the National Directorate had assigned the FSLN unions the task of "strengthening labour discipline [and] raising productivity" (Dirección Nacional y Asamblea Sandinista 1986). The unions took to the task with gusto, but ignored the task of defending their constituency in the give-and-take through which policy was being formulated. Union leaders in fact opposed salary increases, preferring to call for price controls, despite the clear evidence that such

controls were losing all effectiveness. In 1988, Daniel Ortega would comment that "since 1985, we have been waging a large-scale battle against the policy of increasing wages, a battle in which the CST and the ATC have stood out" (1988b).

Despite the acquiescence of the FSLN unions, government control over salaries was somewhat illusory. Government and enterprise managers did what they could to hold on to workers. Despite repeated prohibitions of the practice, payment in kind was a key tactic for evading salary controls in productive enterprises⁵⁹. Firms also compensated by such measures as increased social benefits (Sullivan and Delgado 1988) and increased overtime (Biondi-Morra 1988, 292).

Another compensating mechanism, while legal, to some extent frustrated the aims of government policy. Throughout the 1985-1987 period, the SNOTS system was made more flexible with the introduction of a number of bonuses supplementing the base salary. These included bonuses for above-norm production, seniority, training and education level, and for work quality. Originally meant to encourage productivity and help retain strategic workers, there were increasing concerns within the government that managers were using the bonus system to increase indiscriminately the earnings of all their workers. Data collected in 1987 by the Employment and Salaries Department of the SPP suggested that bonuses represented approximately 100% of the basic salaries of productive sector workers and 30% for other workers. Concerns over the indiscriminate nature of bonuses would lead to a sharp reduction in the bonus system in the 1988 economic reforms.

The compensating mechanism upon which the government had rested its hopes were the "secure channels" dedicated to formal sector workers. When the 1985 economic

⁵⁹Thus, a cooking oil factory gave its workers one-and-a-half gallons of oil per month (B 29-10-87). A rice processor sold its workers 100 pounds of rice per month at the official price (END 28-01-87). A state chicken enterprise gave its workers forty eggs and seven pounds of chicken each month, while a private firm gave workers ten pounds of chicken each week (B 01-02-87). A state slaughterhouse sold its workers twenty pounds of beef each month at the wholesale price, while a private counterpart gave its workers twenty pounds per week (B 10-02-87). One example of the importance of the practice is the case of a state textile company that ended payment in kind, and immediately lost 20% of its work force (JPRS-LAM-87-025).

measures were announced, Internal Trade Minister Ramón Cabrales had promised that commissaries for productive sector workers would play a central role in protecting real salaries (Cabrales 1985a). In February 1985, the government signed an agreement with the CST in which it promised to establish workplace commissaries for over 300,000 productive sector workers (END 18-02-85). In June 1985, Workers' Supply Centres ("CATs") were set up in urban supermarkets for "non-productive" workers (those in the central government, health and education sectors), offering a variety of consumer goods at official prices. It was hoped that the commissaries and CATs together would compensate formal sector workers for nominal earnings lower than those available in the informal sector.

As with the 1985 measures in general, however, the government and FSLN found it hard to resist political pressures from outside the formal sector. In October 1985, Ramón Cabrales complained that the CATs had given access to many who were not formal sector workers: retired workers, families of mobilized soldiers, veterans, etc. (Cabrales 1985c). Given the large number of people allowed access, it was not surprising that the CATs became increasingly chaotic. While it was originally hoped that each worker would visit the CAT once a month, the intermittent nature of supply to the stores made repeat visits necessary. This in turn made such visits more time-consuming: in mid-1987, one CAT manager estimated that the average shopper required four hours to pass through the store (END 02-07-87). A memorandum prepared in the Ministry of Labour in early 1987 suggested that visits to the CATs were one of the major causes of "labour indiscipline" in the state sector.

The difficulties associated with shopping in the CATs may help explain the fact that in September 1987, the CAT cards which gave access to the stores were selling on the unofficial market for just C\$40,000 (B 08-09-87). This represented just 32% of the average worker's base salary at the time. This figure suggests that the CATs, while playing some role in workers' survival strategies, were not a major compensation for low nominal salaries.

Even had the CATs been models of efficiency, it was increasingly difficult for

"secure channels" to compensate for low nominal salaries. A variety of factors, such as liberalization of the grain trade, the practice by state companies of diverting part of production to the unofficial market as a response to pressures to show a profit, and the general "leakiness" of the secure channels inspired by the increasing spread between official and unofficial markets, made attempts to protect real earnings without raising nominal salaries increasingly ineffective. Such attempts were anachronistic, given the increasing power of market forces, and the decreasing relevance of the administrative mechanisms that had been established in the early years of the revolution.

In late 1986, however, government and FSLN decision-makers remained loath to accept this analysis. The Employment and Salaries Department of the SPP, in which I worked, submitted a draft chapter of the 1987 economic plan which called for a 100% salary increase, and warned that each month that passed without adjusting nominal salaries would make that adjustment, which must inevitably occur, more catastrophic. The recommendation was rejected, though the government reversed course soon afterwards.

Advance of the market in 1987. Since the abandonment of the adjustment logic of the 1985 economic plan in mid-1985, policy statements had revealed an ongoing tension between the need to recognize the power of the market and a desire for the reassertion of the state's capacity to direct the economy. Around April 1987, this tension was resolved in favour of market liberalization, as the government abruptly reversed itself on several matters.

In the matter of basic grain trading, the 1987 plan had reaffirmed the policy of "regional price liberalization" (SPP 1987, 290). Under this policy, grain could be traded freely within the country's six main regions, but the state was to control the inter-regional movement of grain. To this purpose, MICOIN established roadblocks to impede the illegal movement of grain, in particular into Managua. The government held that the policy sought

to prevent having those peasant regions where the war was taking place, and where the bulk of the population was being displaced, being left

without food (Cabrales 1987, 42).

On the other hand, the policy could also have been aimed at restoring controls over basic grain distribution without risking a direct confrontation with peasants, since the roadblocks would directly affect only intermediaries seeking to move grain between regions⁶⁰. Inter-regional controls, if effective, could be expected to lower prices for basic grains in the unofficial market, since the prices which intermediaries could pay peasants would be restricted by their loss of access to the higher-priced Managua market. This would allow ENABAS to compete more effectively (and cheaply) with unofficial intermediaries. In late February 1987, MICOIN announced a strengthening of the roadblock system (B 25-02-87). Yet a little over a month later, the roadblocks were suspended altogether (B 04-04-87). Henceforth, the state would accept a free market in basic grains, while still trying to persuade producers to sell part of their output to ENABAS⁶¹.

A similar reversal occurred in the policy on private merchants. In February, MICOIN announced a plan to reduce the number of legal merchants by 60% (B 25-02-87). Within months, however, the government announced that commercial licenses would be granted to anyone who applied (END 18-07-87). It was hoped that this measure would generate significant income for the state, as merchants would pay roughly 1% of their sales for their licenses (B 29-09-87).

A third significant reversal concerned salaries and official prices. The official "line" since the freezing of salaries in early 1986 was that real wages should be protected by such essentially anti-market measures as the "secure channels" established for salaried

⁶⁰It was also easier to administrate roadblocks on the relatively few inter-regional roads than to control trade within regions.

⁶¹The effect of market liberalization on the actual output of peasant products is unclear. Bean production continued to stagnate, declining a total of 7% in 1986 and 1987 (ECLAC 1988). On the other hand, it was reported that in 1986 the peasantry had substantially increased the amount of land it planted with corn (B 27-04-87). After declining in 1984 and 1985, total maize production increased 4% in 1986 and an impressive 24% in 1987 (ECLAC 1988). Much of this increase, however, reflected the impact of "Contingency Plan" maize output.

workers, and price controls. On the same day that MICOIN announced the suspension of its roadblock policy, however, the government announced a new policy of "periodic adjustments in prices and salaries, in accordance with indices of inflation and with changes in the structure of costs" (B 04-04-87). The policy shift recognized the government's inability to protect real incomes through the policies hitherto applied. Base salaries were increased an average of 58% in April, and would be adjusted five more times before the end of the year, for a total increase of 810%, more or less keeping pace with accelerating inflation.

More than the 1985 economic measures, the 1987 shift in policy represented the state's retreat in the face of the market. There was even a willingness to experiment with the use of competition rather than direct control as a means of attaining policy objectives⁶². Signs of what can fairly be called a market ideology began to appear in the pro-FSLN newspapers, and in the statements of some government officials⁶³.

There was conflict within the National Directorate over this change of direction. Henry Ruiz told an assembly of his ministry's staff that he disagreed with the current direction of the National Planning Council, but that he was a minority voice there. Even as the government was implementing measures to increase market freedom, Luis Carrión commented that the call to free markets was "nothing more than a formulation of the interests of the rich and of the merchants" (B 25-05-87).

⁶²For several years, the government had tried to regulate taxi fares. Its efforts had done little more than turn the bulk of taxi drivers into resolute enemies of the FSLN. At one point, Tomás Borge had suggested that the government should jail "reactionary" taxi drivers and confiscate their license plates (B 04-06-84). In early April 1987, the government adopted a new tack, announcing that any private car could operate as a taxi without acquiring a license.

⁶³Thus, an article on a new upscale supermarket in Managua boasted that "There one can buy whatever quantity of products one desires, according to one's monetary capacity. Prices are the only limitation, just as in any other (sic) non-revolutionary capitalist country" (END 25-07-87). In late April, two SPP economists were interviewed on the problems of the economy. One criticized state "subsidies" of health care, while the other called for banks to be run on a for-profit basis (END 27-04-87). It had hitherto been unheard of for government officials publicly to attack two such central government policies as public health care and the administered banking system.

But these concerns were outweighed by a sense of the urgent need to change course. This need was articulated by an inter-ministerial working group headed by Finance Minister William Hüpper, whose recommendations formed the basis of the policy shift. In a study completed around March 1987, the group warned that

the increasing gap between the official price system and other prices is producing a systematic dis-accumulation of the formal sector of the economy, in favour of the informal sector, which is leading to the reduction and decomposition of the former, a situation which contradicts the strategic objectives of the revolutionary project (Hüpper et al 1987).

Thus, as in 1985, the new policy sought to protect the formal sector of the economy. Now, however, more concessions to the market were necessary to attain this objective. The working group stressed that the "artificial containment of a set of prices" had not been effective in controlling inflation, and recommended that all but a few prices should be set "in terms of the market" (Ibid.).

Apart from the strictly economic erosion of the formal sector resulting from government policy, the FSLN leadership was deeply concerned by the moral erosion that accompanied it. While there was room for debate on the exact degree of collapse of real salaries since December 1984, there was no doubt that the fall was extreme, leading those workers who remained in the formal sector to make ends meet with a variety of legal or illegal tactics. The 1987 economic plan had commented that, "in the majority of cases," Nicaraguan families engaged in "speculation" (SPP 1987, 133). In March, Luís Carrión expressed alarm at the "extremely dangerous situation of social decomposition," manifested in increasing thefts from schools, hospitals and supermarkets. Carrión warned that these symptoms were leading to "disorganization and anarchy," and were "seriously impeding the country's development projects, and corrupting the consciousness of workers themselves" (B 22-03-87). A wide variety of economic crimes, Internal Trade Minister Ramón Cabrales warned, were becoming "normal in the eyes of both the people and the institutions that represent revolutionary power" (B 15-07-87)⁶⁴.

⁶⁴On the question of corruption, see also (JPRS-LAM-87-021) and (JPRS-LAM-87-025).

Reports increased over this period of theft from state institutions. The director of the state banana plantations allegedly conspired to steal bananas from his own company (B 23-03-87). The Sandinista Workers' Central charged that one-fifth of bananas and maize production were being stolen from state farms, one million plastic bags a month were disappearing from the plastics factory, etc. (B 31-07-87). Perhaps more than any other factor, this perceived "decomposition" led Sandinista leaders to reverse salary policy⁶⁵.

More generally, an "informalization" of the state complex was taking place, eroding the clear distinction between the formal and informal sectors that had underlain much economic policy. The majority of Managua families were engaging in a "combined survival strategy," in which they straddled the two sectors (*Envío*, no. 66, December 1986). This combined strategy was introduced into the state sector itself: in the ministry in which I worked, one could increasingly find workers engaging in buying and selling during the work day, using phone lines -- an extremely scarce resource outside the formal sector -- to close deals, etc.

The interaction between the state complex and the unofficial market also operated at another level. Together, the ministries and companies of the state represented the biggest customer in the unofficial market. This is easy to understand if one considers the logic and operation of the catch-up socialist economy. Both ministries and state firms were regularly given "top priority" tasks that must be accomplished "at any cost"⁶⁶. But at the same time, access to dollars and imported goods was quite controlled. A ministry or

⁶⁵In late April, Victor Tirado commented that "The problem is not just a drop in production, but that our working class could be weakened, disorganized, that it could lose its cohesiveness, its organization, its identity as a class. We must be clear that economic development is linked to the development of the working class..." (1987).

⁶⁶In the case of productive firms, I have referred to this phenomenon as a "productionist" bias, but it existed in the central government ministries as well. During the mid-1980s, the "at any cost" attitude was most pronounced in the defence and internal security sectors. Martínez Cuenca would later comment that government ministers were "afraid" to question defence spending, "as it might be interpreted that we were not giving sufficient priority to defence" (1990, 120).

company had to present an estimate of its need for dollars long before each year began. Given the extreme shortage of dollars, the requests of a specific institution were almost never met fully.

This meant that a state industrial company, for example, could never meet its production goals if it had to rely only upon official imports. Its salvation was the fact that its *córdoba* budget was not very tightly controlled. Many of the largest state textile companies, for example, maintained financial records that were months out of date and bordered on fiction⁶⁷. Under these conditions, one of the costs of performing tasks "at any cost" was the entry into the unofficial market to find whatever could not be obtained through formal channels. This activity naturally became more common as foreign exchange became more scarce, and as the proportion between foreign exchange captured by the state and that circulating in unofficial channels shifted to the detriment of the state.

This entry into the unofficial market both required and perpetuated lax financial controls. As Colburn points out, such receipts as one can come by in the unofficial market are but "hastily written slips of paper" (1990, 108). Thus, in contrast to the original vision of the state-dominant economy, in which order and control would slowly spread out from the state sector to cover the economy as a whole, one saw the chaos typical of the unofficial market imposing itself upon the state sector. Ironically, this phenomenon resulted precisely from the logic of the catch-up socialist economy, in which tasks are to be performed "at any cost." From the bending of rules required to perform such tasks, it is often a small step to personal corruption, since both one and the other are sheltered by the lack of financial and other controls.

The adjustment spiral. The decision to adjust salaries was based on the assumption that this would not significantly increase inflation. As Jaime Wheelock put it in May 1987:

⁶⁷Sec Avilés et al (1987).

If we don't increase salaries, inflation continues. It is not salary increases that are provoking inflation. Obviously, they can affect inflation a bit, but what produces inflation is the fiscal deficit (1987a).

The analysis of those of us who supported this position was quite simple: real salaries had declined to such an extent that they no longer represented a significant source of demand, nor a significant factor in the cost structure of firms and the government. Given the extremely low level of salaries, their increase should not contribute much to the fiscal deficit, nor to cost- or demand-induced inflation. A similar analysis could be applied to the adjustment of official prices: these were lagging so far behind un-official-market prices that their increase should not contribute much to increases in the overall price level.

But in fact inflation did accelerate rapidly from April 1987 on. While the CPI had crept upwards at a rate of just 1.4% per month in the first trimester of 1987, it jumped 1287%, or 33.9% per month, from April to the end of the year. These figures are questionable, as many of the weaknesses of the CPI which were noted in chapter one became particularly prominent during this period. A price index calculated by the Employment and Salary Department of the SPP, based on a basket of basic consumer goods, told a somewhat different story. While the CPI jumped 897% in the April-October period, the SPP's basket increased 284%⁶⁸. The SPP's basket, on the other hand, registered higher inflation than the CPI during the pre-adjustment period⁶⁹.

Whatever the exact figures, Nicaragua had entered a hyper-inflationary period of four- and five-digit annual inflation. In what way did the adjustments in salaries and official prices contribute to this result? One explanation can begin with the hypothesis

⁶⁸Thus, the CPI indicated that real salaries continued to drop during the period of nominal salary adjustments, while the SPP's basket indicated an improvement, as nominal salaries were increased 355% in the April-October period.

⁶⁹As a more recent construction, the SPP's basket probably gave a more accurate picture of overall inflation trends during this period, though it was not based on any survey of consumption.

that, despite the common view of the unofficial market as an anomic chaos, various state pressures on "speculation" had in fact created a practice among many unofficial-market sellers of limiting themselves to "reasonable" price increases. Their definitions of reasonableness differed widely from that which the government wielded: some macro-economic event which had no impact upon the seller's cost structure could be seen "reasonably" to justify a price increase. Whatever their flexibility, I believe that tacit norms of reasonableness were in effect in much of the unofficial market⁷⁰.

Appearances to the contrary, such a phenomenon is quite consistent with a maximizing-behaviour hypothesis. Sellers in the unofficial market knew that keeping price increases "reasonable" would avoid problems with their customers, problems which could easily escalate into conflicts with the state or with the FSLN's mass organizations⁷¹. Thus, following a policy of "reasonableness" can be seen as a strategy to maximize a value dependent upon two dimensions: profit and security.

One could then argue that the 1987 salary and official price increases constituted a major signal validating "reasonable" price increases in the unofficial market. It was common to find vendors who had raised prices "because of SNOTS," though their own cost structure in no way depended upon the level of salaries. Part of the problem was the very massiveness of the SNOTS system, which now comprised over 300,000 workers: Nicaraguans -- both buyers and sellers -- could believe that an increase in SNOTS meant "everyone's" nominal income was going to rise. This belief validated the "reasonableness" of price increases in the unofficial market. Thus, a system designed to bring order to the salary system seemed to have a tremendous unforeseen cost: it appeared to make it near-impossible for real salaries to recover lost ground.

⁷⁰The analysis here uses Hodgson's (1988, 185f) notion of price norms here, though adapting it to an inflationary situation. I believe that, by 1987, norms concerning absolute or relative prices had been weakened or destroyed by years of inflation and shifting relative prices, yet norms concerning price increases remained.

⁷¹Particularly when the most important customer for the unofficial market was the state itself.

The "signals" given off by the official announcements of salary increases were exacerbated by the practice of announcing various types of official price increases at the same time. Thus, the Minister of Tourism for some reason chose to announce 200% increases in the prices of luxury restaurant meals simultaneously with the announcement of the April salary increase. Though luxury restaurant prices were irrelevant for Nicaraguans in general, the combination of announcements suggested that a major upward move in prices was underway, and unofficial-market prices jumped accordingly. Similarly, the July salary increase of 20% was accompanied by an 82% increase in official consumer prices⁷².

Thus, Nicaragua entered an "adjustment spiral": despite the deeply depressed level of salaries, each increase -- along with adjustments in official prices -- sparked great inflation, probably through its impact on expectations concerning "reasonable" price increases. This spiral could not have been maintained had macro-demand been constrained: in theory, there was no reason why increases in depressed salaries should generate the increase in nominal purchasing power necessary to sustain an overall increase in unofficial-market prices. Once again, however, the poorly-understood interaction of the state and the unofficial market played a key role. So long as state officials continued to enter the unofficial market seeking to fulfil their objectives "at any cost," that market had a key source of demand willing to put up with "reasonable" price increases. Higher prices charged in the unofficial market simply increased the nominal fiscal deficit, which, along with the money supply, played a relatively passive role in adjusting to new prices.

If this reconstruction of the dynamics of 1987 inflation is correct, the adjustment spiral had become the prime cause of inflation. Thus, even a relatively low ratio between the fiscal deficit and nominal GDP was now compatible with almost any level of inflation, depending on how fast the government was willing to try to "adjust" relative prices. This fact would be amply demonstrated in 1988.

⁷²The 82% figure represents an average weighted on the basis of the quantity vector of the SPP's "minimum consumer basket."

The salary question now confronted the government with a no-win political dilemma. While freezing salaries had not won the workers' love, neither did adjusting them under conditions of hyper-inflation. Workers had good cause for feeling they were worse off than before: announcements of wage increases were made early in the month, but the actual increased pay was usually not received until month's end. In the meantime, workers had to confront the price jumps that resulted from the announcement of the salary increase, with only the previous month's salary in their pockets. The salary increase at best sought to protect workers from the previous month's inflation, yet left them defenceless against current inflation, a significant problem with inflation running between 20% and 30% per month⁷³.

Thus, by late 1987, there was probably much sympathy for the declaration by various opposition unions that, since neither salary freezes nor salary increases under the SNOTS system could protect real earnings, SNOTS itself had to be abolished (END 08-10-87). This move was under consideration in the government, but involved serious problems. It was risky to end salary controls when many workers and employers would not be in an oppositional relationship: in a situation of rapid inflation, managers in the government and the productive sector could rely on the Ministry of Finance and the market, respectively, to ratify any decisions they made concerning nominal salary levels⁷⁴. Hence, an end to salary controls could reasonably be expected to trigger an ever more rapid wage-price spiral. This dilemma was but one of several that were making themselves increasingly felt by year's end.

The problem of specialist salaries. In a situation in which real salaries in general were deteriorating, those of "specialists," professionals and other highly skilled workers,

⁷³E.H. Carr records a similar phenomenon in the USSR in the 1922-1923 period (1960, 78).

⁷⁴Brus and Laski (1989, 84) have noted the difficulty for socialist reforms presented by the lack of an oppositional relation between managers and workers on salary questions.

presented a particular problem for the government. The evolution of the government's handling of the problem illuminates the interplay between political pressures from the FSLN's various constituencies, the FSLN's own interpretation of its class nature, and economic problems that urgently required attention.

Previous chapters have noted the dilemma which the FSLN -- like all Marxist movements in power -- faced with respect to specialists. Their expertise was required, but their politics and ideology were mistrusted. The leadership, like other revolutionary leaderships before it, placed its hope in a new generation of specialists that would be produced by the Revolution itself, and thus freed from the "deformations" of the *ancien régime*⁷⁵. In the meantime, the "old" specialists were to be tolerated, though closely watched.

This outlook made itself felt in the design of the SNOTS system. In a country where there had never been government controls on maximum salaries, the first SNOTS scale imposed a "fan," or ratio between the highest and lowest salaries, of 8.82. The various salary increases of early 1985 lowered the salary fan to 6.42 (Table C.14). But by late 1985, the government was aware that this approach to specialists was running into a fundamental barrier: emigration. According to SPP data, specialist emigration in 1985 alone was just slightly below the total for the 1979-1984 period. Nearly twice as many engineers emigrated in 1985 as in the five previous years, 120% as many economists and administrators, 84% as many doctors, etc. INCAE, a local MBA programme affiliated with Harvard University, claimed in 1985 that 60% of its MBA graduates had left Nicaragua (Austin and Ickis 1986). Though persons classified as specialists comprised only 6.7% of the economically active population, they accounted for 16.5% of emigration

⁷⁵The task of cultivating this new generation began at an early age. Across the street from the house where we lived in 1984 was a grade school. Every morning, the student body would gather outside before classes began for a short assembly. One morning, the principal told her students that

You must study hard. Some of you are going to grow up to be doctors.
But you won't be like those doctors who fill their pockets with money.
You're going to be doctors who care about your country, about the people,
about making people healthy.

from that population in 1985. This reflects in part the fact that specialists found it easier to gain entry to other countries⁷⁶.

Coupled with the movement of specialists into the informal sector, emigration created a crisis for the government's approach to this social sector. More specialists were leaving than the educational system was producing, and in any case there were grave doubts concerning the level of expertise of the newly-graduated specialists.

The leadership thus sought to change course, and to sell this change to the popular sectors within its constituency. In a strong repudiation of the earlier hope that specialists would respond to "moral" incentives, Sandinista Workers' Central leader Lucio Jimenez declared that "no-one would want to be a doctor if he wouldn't earn any more than a machine operator, so the economy would not develop." This fundamental principle that more "complex" work should be better paid, said Jimenez, had been violated in the 1985 salary increases:

This deviation, rather than reflecting inexperience, was a political error based on the demand of workers who were not in agreement with higher salaries for specialists (B 06-01-86)⁷⁷.

The January 1986 salary increase was skewed in favour of the upper level of the SNOTS

⁷⁶Canada played a none-too-honourable role in this process, as Canadian consular officials in Central America and the United States distorted the refugee selection process in order to give preference to Nicaraguan applicants. This distortion coincided with the Conservatives' accession to power in late 1984: the number of Nicaraguan refugees admitted from abroad rose from 77 in 1984 to 421 in 1985. By early 1988, Nicaraguans represented 27.7% of Central American refugees admitted from abroad, up from just 2.9% in 1984. Nicaraguan admissions were higher than those from Guatemala, and my study of the refugee selection process (Ryan 1988) found that Nicaraguan applicants generally found the selection process much more sympathetic than those from Guatemala or El Salvador. This occurred despite the fact that all major human rights organizations painted a much more serious picture of the human rights situation in the latter two countries than in Nicaragua.

Nicaraguan refugees whom I interviewed in Canada agreed that the refugee selection process was heavily biased towards professional applicants. Many such professionals, however, would not be allowed to exercise their professions once in Canada.

In addition, the Canadian Government permitted "visitors" from Nicaragua to arrive without visas long after it had imposed a visa requirement for citizens of the rest of Central America. This allowed Nicaraguans to arrive at Canadian border points and claim refugee status, thus entering the endless backlog of refugees here.

⁷⁷Jimenez thus represented the curious phenomenon of a workers' leader who opposed salary increases for workers in general, but supported them for specialists.

scale, and the salary fan was widened to 8.23. Later in 1986, the number of SNOTS categories was increased from twenty-eight to thirty-nine, allowing many specialists to be classified at a higher level. This led to a further widening of the salary fan, to 11.17.

But all this had little impact. Given the low level of real salaries in general, tinkering with the salary fan could have little impact on specialists' living conditions. If one deflates by the CPI, the real salary of the top level of SNOTS in December 1986 was just 90% higher than the minimum wage of two years earlier. Thus, the exodus intensified. In 1986, the emigration of specialists rose by 51% over 1985. Emigrants in such critical categories as doctors and agronomists doubled in one year. In 1986, specialists made up nearly a quarter of economically active emigrants.

This situation led the government to decide that it could not "protect everyone the same," as SPP Minister Dionisio Marengo put it in early 1987 (Marengo 1987). Sandinistas must eschew "egalitarian theses," declared Daniel Ortega, since without material incentives, no one would wish to train themselves (D. Ortega et al 1987b). In April 1987, Jaime Wheelock told a meeting a FSLN cadres that

Of the 300,000 salaried workers covered by SNOTS, there are only 1,450 high- and medium-level specialists, and we have decided to improve their living conditions. The working class possesses the clarity necessary to understand the importance of putting professionals in a special situation (1987b).

The FSLN's organization of professionals (CONAPRO-HM⁷⁸) was itself becoming more aggressive in pressing the claims of its constituency. Professionals, declared one CONAPRO-HM leader in May, "have proposed, planned and carried out all that has been done in this Revolution" (B 07-05-87). A "mechanical egalitarianism," complained another, had reduced specialists' access to such "essential articles" as electric appliances (B 21-10-87).

⁷⁸The suffix "HM" stands for "Heroes and Martyrs," and was meant to distinguish the FSLN's professional organization from that, also named CONAPRO, belonging to COSEP.

Learning the lessons of 1986, the government's attempts to improve the living conditions of key specialists no longer relied on the salary mechanism⁷⁹. Instead, the government sought to create non-salary privileges. One of these was a special CAT for 6,000 specialists, who "occupy key positions in the Government and companies" (B 08-10-87; END 23-10-87). Other perks, in use before 1987 but whose application was now being extended, including the "sale" of imported Ladas to key specialists on terms that more or less made them gifts⁸⁰.

These practices provoked concern in many quarters. One regular contributor to Barricada asked

Does not the political strategy of attracting professionals to the Revolution through material incentives dangerously open the door to opportunism?
Does this strategy guarantee that they will not demand even more goods in the future if they are to continue their support, under threat of accepting a better offer elsewhere? (B 21-10-87).

After CONAPRO-HM demanded an exemption from the SNOTS scale and a variety of other privileges for specialists (B 03-10-87), one Ministry of Labour official angrily commented that "Professionals need to reflect, because in the end it is the people who have subsidized their learning" (B 12-10-87).

But these concerns did not affect the overall shift in party policy in favour of material incentives for specialists. One Barricada editorial called for the "necessary deference [sic] for those who organize and mobilize the bulk of the labour force," and declared the principle of distribution according to "capacity, and the quality and quantity of work" (B 22-10-87). Another reminded readers that "egalitarianism" was a "populist" concept, rather than a revolutionary one, and that those who promoted it were "demagogues" (B 28-10-87).

The magnitude of the shift in the FSLN's rhetoric is startling: "egalitarianism,"

⁷⁹In fact, the first salary increase of 1987 narrowed the salary fan once again.

⁸⁰In mid-1987, a large number of Ladas were "sold" to specialists in the SPP for C\$800,000, which represented a little more than \$100 at the unofficial-market rate. What is more, the specialists were loaned the money to pay for the cars, at real rates of interest of approximately -90%. Thus, they could expect the cars to be essentially free.

one of the central pillars of early revolutionary rhetoric, was now rejected as mere populism and demagoguery. Faith in moral incentives was now seen as recklessly idealistic: moral appeals to the specialists had fallen on deaf ears, as evidenced by the large number of doctors and engineers sweeping floors in Miami or Toronto. Appeals to heroism and attacks on "economism" would henceforth be limited to the "fundamental classes" of the revolution, the workers and peasants.

It is a measure of the importance of Marxist ideology within the FSLN that this shift in policy and rhetoric was articulated as a shift between variants of Marxism. In the earliest years of the revolution, the Sandinista leaders had spoken to specialists in much the same tone that Che had used when he toured Cuba to meet with university students or professionals: a formerly privileged group was asked to forget the past and generously play a key role in building the future. The revolution was a Promethean force that would soon level the peaks and valleys separating the poor from the privileged in the new Nicaragua.

The 1987 attacks on "egalitarianism," appeals to the principle of distribution according to "capacity, and quality and quantity of labour," and the rejection of other possible principles as mere "populism," on the other hand, all sounded very much like the salary chapter of any Soviet text-book on political economy⁸¹. Later in this chapter, and in the next, we will see that the FSLN leadership increasingly relied upon the rhetoric of developmentalist Marxism to rationalize and perhaps even comprehend the policies it felt itself forced to adopt.

Summary: the dialectic of market and administration. The 1985-1987 period had seen a number of concessions to the continued power of the market, and even a

⁸¹ Thus, *Economía Política* (1982, 482f) notes that Article 14 of the Soviet Constitution enshrines the principle of "to each according to his capacity; to each according to his labour." But labour, the textbook goes on, refers to both "quantity and quality." The book also attacks the "egalitarianism" of such "revisionist leftists" as Trotskyists and Maoists, which "impedes social production" and blocks "the development of human capacities."

willingness to let certain dimensions of economic life, such as the distribution of private grain production, revert to the market sphere. But this reorientation of policy had brought the Nicaraguan economy no apparent relief, and seemed instead to have plunged the economy into chaos. Part of this appearance is illusory, as it reflects the coincidence between the timing of the economic reforms and the accelerated crumbling of the economy under the impact of several years of war. Nevertheless, the hesitant "turn to the market" of the 1985-1987 period, and the uneasy interaction between the spheres of market and administration which resulted, had left the economy with as many fundamental irrationalities as had existed in late 1984. In essence, the government had failed to find a policy mix that would permit a stabilizing "turn to the market." Three problematic areas will be examined briefly here.

First, there had been an acceptance of the market in handling peasant output, but peasant inputs continued to be managed by the state. The peasantry was still able to buy production inputs at low official prices. In fact, because peasants were given bank loans to finance their purchase of inputs, and these loans carried deflated interest rates that were swiftly moving towards -100% as inflation accelerated⁸², agricultural producers in general were receiving inputs from the state for next to nothing, with no corresponding obligation to deliver part of their output to the state. Even the most inefficient of producers could earn a profit, and the state complex lost money in its relations with agricultural producers, which undermined the objective of price stabilization through macro-demand containment. Thus, one saw a credit and input policy that reflected a "productionist" bias, and militated against the price stability the government sought, but which generally failed to generate production for the secure channels themselves.

This odd mix of policies seemed to beg for a resolution in one of two directions: either the government should use its control over credit and inputs to extract some output

⁸²This point is the "negative infinity" of banking: as real interest rates approach -100%, "loans" effectively become "donations." Deflating by the CPI, real interest rates in 1987 were approximately -91%.

from producers, which would allow it to strengthen the "secure channels," or something approximating market prices should be applied to the provision of credit and input services. But the government was reluctant to address the problem. In April 1987, a National Development Bank official said that the idea of linking government financing to the willingness of producers to sell to the state had been "discussed," but no action was taken (B 21-04-87). The question was whether relations with agricultural producers in general and the peasantry in particular could be altered without disturbing either production or the FSLN's rural alliances.

The leadership thus limited itself to pleading with producers. Jaime Wheelock declared in May 1987 that

the peasant has received land -- which has been respected by the Revolution -- and inputs: machetes, files, boots, tractors, lighters, etc., from the efforts of the people, who have produced these goods and brought them to the peasant. So he has to direct his production towards other producers, towards the workers... towards the nurses and doctors (1987a).

But at this point the leadership could have had few illusions on the efficacy of such pleading. The mix of policies towards rural producers was accepted for the time being by FSLN leaders as a price for the revolution's "alliance with the countryside." We will see in the next chapter that, when the leadership finally decided in 1988 to abandon this policy mix, it would do so in a particularly catastrophic fashion.

A second highly problematic area of policy was the exchange rate. While the 1985 economic plan had sought to reduce both exchange rate loss and the price distortions resulting from an overvalued *córdoba*, the stop-go pattern of adjustment had led to precisely the opposite result. Whereas the ratio between the unofficial and official rates of exchange had stood at 50:1 in late 1984, by the end of 1987 the unofficial rate was at least 300 times higher than the lowest official rate, and there was even a 200:1 spread among legal exchange rates⁸³. The government feared that devaluations would accelerate

⁸³The government had tried to reduce this remarkable gap in mid-1987, with the introduction of a "monetary stabilization rate" which increased the effective rate of exchange to C\$370:\$1 for most imported inputs. MIDINRA, however, won an exemption for agricultural inputs, whose effective rate of exchange was only C\$170:\$1 (Presidential Decree 268; B 26-06-87). The exemption, which had no clear rationale, infuriated

the adjustment spiral, and that it might prove as impossible to achieve a real devaluation as it had proven to increase real salaries. At the same time, however, it was clear that economic stabilization would require policies to address the problem of exchange rate loss.

The third and final area of concern was that of salaries, discussed above. Events had shown that neither stable nominal salaries, with reliance on "secure channels," nor salary adjustments under the conditions prevailing in the Nicaraguan economy, could protect the real earnings of Nicaraguan workers. As almost no-one believed in the government's capacity to control prices by late 1987, there were increasing pressures to allow a full-fledged market for labour, though such a strategy would also entail serious difficulties.

Agricultural credit and inputs, the exchange rate, and salaries: these three policy areas would be crucial points of focus in the policy shifts of 1988. The depth of the dilemmas facing the government in these areas, and the general exasperation with the country's "adjustment spiral" and its associated hyper-inflation, were creating a belief in the need for some form of "shock therapy." The coming years would see several applications of such shocks, until, one February day in 1990, Nicaraguans would respond in kind, giving the FSLN a shock from which it has yet to recover.

C. Relations with the bourgeoisie

As 1985 brought signs of greater respect within the FSLN leadership for the staying power of the market, so too was there more acceptance of the long-term role of the private sector in general and the bourgeoisie in particular. As with the recognition of the market, the shift in thinking with respect to private producers was politically delicate, and the National Directorate sought to express the shift within a framework of Marxist language and analysis.

A key example of this timid and highly "coded" shift in the view of private

officials in the SPP, who attributed it to Wheelock's excessive power within the National Planning Council.

production came in a speech by Victor Tirado, days before the announcement of the new economic measures:

Free enterprise was tried in Nicaragua, and it brought us backwardness, misery, dependence, dictatorship; maybe it was good for other countries, maybe it was just or correct, but it has been shown that in Nicaragua it failed. But it is not a question, as is often affirmed, of wiping private enterprise off the map, of eliminating private enterprise; we don't think so. We believe that the private sector performs and should perform an important role in the mixed economy. Some sectors of private enterprise understand this, others do not. The mixed economy, [for those who do not understand], means that the Sandinista Front should abandon the leadership of the government...

Sometimes for economic or political reasons, because of a lack of cadres, or because of spiritual and material backwardness, the State cannot take on the administration of the entire economy, and this is where the private sector plays an important role...

On the other hand, this revolution is well defined for us; it would be hasty and bare-brained to try to push reality, to try to skip stages and take on tasks for which the society is not yet ready. And so the mixed economy, the existence of a strong state sector and a vigorous private sector are objectively necessary and destined to last through a long historical stage (rpt. 1985, 125f).

Though the speech provoked a protest from COSEP⁸⁴, it indicated the shift in FSLN thinking that had taken place since 1979: from the talk of transitory, "tactical," alliances often heard in 1979-1980, to talk of a "long historical stage." "Developmentalist" Marxian rhetoric, on which Jaime Wheelock had held a near-monopoly, was now spreading through the National Directorate, serving as a vehicle by which the Directorate expressed the need to put statist aspirations on the back burner for the foreseeable future.

Even the more resolutely statist elements within the Directorate appeared to accept the change in orientation. Tomás Borge commented in mid-1985 that

We are not an island like Cuba... This geopolitical factor has obliged us, independently of our will, to develop political pluralism and a mixed economy. The development of this tactic has been converted into a strategy and today the mixed economy, for example, is not a tactical option

⁸⁴COSEP expressed concern over a sentence in Tirado's speech, in which he said that "the day we eliminate the aggressions, the day in which we can really live in harmony and peace, then we will be able to pass to a higher phase of our economy and our society" (Ibid.). In the context of the speech as a whole, however, this vague statement cannot be interpreted as referring to expropriation of the private sector.

Nevertheless, Daniel Ortega distanced himself from Tirado's remarks, indicating that Tirado did not speak for the Directorate as a whole. This was one of very few cases in which one member of the Directorate was publicly critical of another.

or a camouflage. It is a strategy.

Borge went on to note that "This makes the conduction of the revolutionary process among the masses much more difficult" (Borge 1985e).

In another expression of the new political mood within the FSLN leadership, Daniel Ortega held a nationally-televised meeting with a wide range of private producers, including leaders of COSEP, days after the announcement of the new economic measures. The tone of Ortega's remarks to the producers was generally conciliatory, recognizing, for example, that injustices had occurred in the application of the agrarian reform (B 18-02-85)⁸⁵. In the same meeting, however, Ortega ratified the Sandinista strategy of pushing the bourgeoisie into an economic mold: Ortega responded to a harsh speech from COSEP head Enrique Bolaños by stating that he had come to discuss "economic," not "political," questions with producers⁸⁶. The FSLN was to be more open to the specific economic concerns of producers, including bourgeois producers, but it was not about to "abandon the leadership of the government," as Victor Tirado had put it.

⁸⁵Ortega too, however, recognized the political delicacy of seeking *rapprochement* with the bourgeoisie. Perhaps because of this, he maintained a class rhetoric even in his attempts to build bridges to the bourgeoisie. In his meeting with the private producers, he commented:

With respect to what the gentleman from the Gracsa company said, about the entrepreneurs being the workhorses pulling the cart, there are different interpretations. There are some who understand that in fact the feet, the heart, the lungs, the muscles of the workhorses are the workers. The horse walks thanks basically to the efforts of the workers, and can survive without entrepreneurs. I think we're clear on this, I think that any company here can survive without its owners (B 18-02-85).

⁸⁶Bolaños declared that the new economic measures could not succeed without an "adequate socio-political climate," and commented that the measures were "tactical, transitory, conjunctural, as the communists say." He also repeated COSEP's demand that the government negotiate with the contra (END 17-02-85).

Bolaños at this point was as much as pleading for a United States invasion. In a March 1985 speech in Panama, he warned business people there that they must wake up to the threat of communist enslavement in Central America. "Soviet penetration into the area is already a reality," he warned, and insisted that containment was not "the appropriate response to communism's objectives." At the end of the meeting, a local business leader collected funds to help "expel the communist regime in a final offensive" (FBIS 27-03-85).

Months later, Bolaños argued that the Sandinistas had no right to speak of Nicaragua's right to self-determination, since, in their own struggle against Somoza, they had called for "hemispheric solidarity." Again, Bolaños called for a fight against "Soviet expansionism" (FBIS 12-06-85).

Greater recognition of the need to address the concerns of the bourgeoisie led to an attenuation of class rhetoric. A new category was invented, that of "patriotic producers": those who continued to produce, who did not cooperate with the contra or with the politicized bourgeoisie within COSEP, who accepted the FSLN's political dominance, be they ever so bourgeois in strictly economic terms, were absolved of the historic sins of the bourgeoisie⁸⁷. Thus, for example, Jaime Wheelock had declared in 1980 that

the interests of small owners are radically different from those of large ones. We cannot ally ourselves with them because at any moment they could betray us, as they did to Sandino... as they did in Chile (B 05-01-80).

But by the mid-1980s, Wheelock painted Nicaraguan history in quite different terms. "We cannot throw in the same bag," he declared in 1986, the large owner who "persecuted and murdered peasants," and those, who might own as much as 400 hectares, but who

may well have fought alongside Sandino, may well have struggled against imperialism...
Neither from an economic nor a political point of view, and much less from the point of view of our revolutionary morality, can we throw into the same sack a *somocista* and a revolutionary, merely because the two own the same amount of land (1986c, 29)⁸⁸.

Thus, class location no longer depended upon the "mere" question of ownership of means of production: "A bourgeois," Daniel Ortega argued, "is the one who says that we are

⁸⁷The adjective "patriotic," while useful in political terms, was perhaps not as accurate as "economistic" for describing this segment of the bourgeoisie. Apparently unaware of the irony of his words, FSLN supporter Xabier Gorostiaga classified "a good part of the transnational companies" operating in Nicaragua as "patriotic producers" (1986, 55).

⁸⁸Simultaneous "innovations" in class language were also being applied to the state sector. The government was seeking to "strengthen the authority of enterprise managers" (Dirección Nacional y Asamblea Sandinista 1986), and was apparently concerned that the use of class language at the grass-roots level could undermine the authority of enterprise managers. Victor Tirado thus argued in this period that enterprise directors were as much members of the "workers' movement" as anyone else, and that the working class includes anyone who is "part of one production process" (1986, 119ff). Daniel Ortega also stressed that "The manager of a company is a worker," and warned that "The enemy will also instill mistrust between the union and the management, between the union and the [specialist]" (JPRS-LAM-86-075). What had once been a normal expression of class tension was now the work of the "enemy."

There were many symbols of this integration of upper administrative echelons into the "workers' movement": at the end of union elections in my ministry in early 1987, the ballots were counted by the Minister.

worse off with the revolution." The bourgeois thus "can be very rich or can have no money" (FBIS 14-07-87).

In the countryside, responsibility for building bridges to the "patriotic producers" went to UNAG, which was shedding its original identity as an essentially peasant organization. Accordingly, UNAG also was shedding class rhetoric. In a late 1984 interview, UNAG head Daniel Núñez dismissed the question of whether "rich peasants," who employed up to 500 workers during harvest time, should be allowed to join UNAG:

Yes, why not? If he is a patriotic man he is in the UNAG. The framework should not be philosophical questions, but rather the conduct of men (rpt. D. Núñez 1985, 370).

UNAG's shift in orientation was effective in containing the influence of the opposition bourgeoisie in the countryside. Many rural producers found it more prudent to distance themselves from the strident and highly politicized path of COSEP and affiliate themselves with UNAG, which was increasingly becoming an effective "fixer" for broad sectors of the agrarian bourgeoisie⁸⁹.

The contrast between the two options was highlighted whenever the two organizations participated in a public meeting with government officials. Thus, in an early 1987 meeting, called to discuss the 1987 economic plan, COSEP head Enrique Bolaños repeated his group's position that there would be no improvement in the economy until the FSLN agreed to dialogue with the contra, and told President Ortega:

All this is a total failure, a national tragedy. Your government has failed, the political project of the FSLN has failed... What we must do now is begin anew.

The UNAG representative, on the other hand, focused on a series of specific economic concerns of producers. He criticized, for example, the lack of availability of MIDINRA regional officials, who were too busy driving around in their "air-conditioned vehicles."

⁸⁹Luciak (1987, 138) notes that "UNAG members will be affected [by the agrarian reform] only in truly exceptional cases, considering the enormous political and economic power of the organization." This created a great incentive to join the organization. Luciak notes that many local affiliates of UPANIC, COSEP's organization of agricultural producers, were also members of UNAG, and refrained from echoing the hard-line position of the UPANIC national leadership.

When the UNAG official did touch on more "political" questions, he was careful that any criticism take the structure of revolutionary power as a given. Thus, for example, he criticized the government for convoking producers to discuss an already-formulated economic plan, by pointing out that such a right of participation was provided for in the constitution passed by the FSLN-dominated National Assembly (D. Ortega et al, 1987a).

By early 1986, UNAG was claiming 124,000 members, and held that its membership was responsible for the bulk of agro-export production (B 23-01-86). Whether or not these statistics are accurate, it is clear that a significant portion of what remained of the agrarian bourgeoisie was now affiliated with an organization established by the FSLN. Because UNAG did not make many demands on its members, however, one cannot say that membership in UNAG implied loyalty to the government. Nevertheless, UNAG at the very least appeared successful in closing some of the "organizational space" that might have been used by opposition groups.

A price had to be paid for the political success of UNAG: the FSLN gave far more autonomy to UNAG than to any other mass organization. As they integrated "patriotic producers" into the organization, UNAG officials essentially used their autonomy to bring some of the economic demands of the bourgeoisie into the revolutionary sector.

An April 1987 meeting between the government cabinet and mass organization representatives highlights the special nature of UNAG. A series of officials from the Sandinista Workers' Central (CST), "representing" urban workers, rose to speak of the importance of productivity and of defeating the contra, while studiously ignoring the issue of the calamitous drop in the living standards of their constituency. The UNAG representatives, on the other hand, aggressively spoke to the immediate concerns of their constituency. One demanded that the mobilization of young men for defence be done in a way that was less disruptive of rural production. She attacked the FSLN's Rural Workers' Union (ATC) for trying to impose collective agreements on private producers by wielding the threat of expropriation. She noted that it was impossible to dialogue with government representatives in the rural regions, and that unjust expropriations of private producers

were commonplace (D. Ortega et al 1987b). These were many of the same concerns that had been articulated by the rural bourgeoisie in 1979-1980, concerns which had often provoked harsh reactions from FSLN leaders. Now, however, the concerns were being expressed from within one of the FSLN's own creations. Thus it was not clear whether a sector of the bourgeoisie was being "revolutionized," or whether part of the revolutionary bloc was being "bourgeoisified."

The shift in the FSLN's strategy towards the bourgeoisie was not without tension, however. We will see below that grass-roots pressure forced an intensification in the agrarian reform process in 1985-1986, one that partly frustrated the FSLN's attempts to mollify the agrarian bourgeoisie.

The Esquipulas Accord. In early August 1987, an event occurred which would decisively influence political relations between the FSLN and the bourgeoisie from then until the FSLN lost power in early 1990. Meeting in Guatemala, the five Central American Presidents signed the "Esquipulas II" accord on August 7. The accord presented both the FSLN and the bourgeoisie with new dilemmas. On the one hand, the Nicaraguan Government pledged, along with its regional counterparts, to promote "an authentic pluralistic and participatory democratic process" (Presidents of Central America 1987). This included a commitment to "complete freedom" for media, including the right to run television stations, (which would threaten the monopoly of Nicaragua's Sandinista Television System), and to other civil rights.

On the other hand, the accord accepted the legitimacy of the existing governments and constitutions in the region, and condemned armed opposition movements. The governments committed themselves only to hold future elections "in accordance with existing constitutions," and to "initiate a dialogue with all unarmed political opposition groups within the country" (Ibid., emphasis added). Most significantly, the five governments promised to "prevent the use of their own territories" by movements seeking to "destabilize" any government in the region. This implied, among other things, a

commitment by the Honduran Government to evict the contra from its territory. The accord seemed certain to reduce the pressure the contra could exert upon the FSLN, and thus there was a sector of the Nicaraguan opposition dismayed that the accord would "oblige us to continue putting up with a Marxist government" (LP 01-10-87).

The months after the Esquipulas II agreement underlined the tensions among the opposition parties. Several parties felt that the accord had created an opening for fruitful negotiations on political questions, and took part in a "National Dialogue" with the government. The more intransigent parties, associated with the Democratic Coordinator (see chapter six), ignored the spirit and letter of the Esquipulas II accord, declaring that "the efforts of the civic opposition parties have failed" and demanding immediate O.A.S.-supervised elections (LP 07-12-87). The conflict generated around this question led to the splintering of several of the opposition parties into pro- and anti-National-Dialogue factions.

This splintering of the opposition was related to a tension between the opposition parties and COSEP, which had hitherto coordinated the intransigent wing of the bourgeois opposition. The government, viewing COSEP as the most Reaganite segment of the opposition, refused to invite it to the National Dialogue⁹⁰. The government argued that, as the FSLN was attending the dialogue as a political party, unaccompanied by its unions and mass organizations, so should the opposition channel its representation through existing parties. COSEP determined that a dialogue that excluded it was a dialogue that should not take place at all, and pressured those politicians closest to it not to participate.

The post-Esquipulas period also generated tensions within the FSLN leadership, however. These tensions centred on the question whether the government should begin to implement some aspects of the Esquipulas accord before the other Central American governments had begun to do so, even though the actual accord called for all measures to

⁹⁰COSEP did little during this period to dispel this impression. In a late October interview, Ramiro Gudián of the COSEP executive thanked Reagan, who is "looking after the problem of Nicaragua," for his "solidarity" with the country (LP 02-10-87).

be implemented "publicly and simultaneously" in early November.

The government originally held to the principle of simultaneity. Returning from the Guatemala summit, Daniel Ortega stressed that the accord was "indivisible, and the implementation of this document is simultaneous." Ortega also stated that Nicaragua would not lift the state of emergency until "the aggression stops" (FBIS 11-08-87).

But various factors led the National Directorate to give ground on the simultaneity question, a policy shift apparently spearheaded by Daniel Ortega. A major factor was the military situation. Though the government had been proclaiming the contra's "strategic defeat" since 1985 (see above), by late 1987 Humberto Ortega admitted that "the war is the fiercest it has ever been" (NYT 22-12-87)⁹¹.

Indeed, the war had taken an ominous turn. We noted above that the government's acquisition of Soviet MI-24 helicopters had helped tilt the military situation in Nicaragua's favour. Though the contras acquired SAM-7s in 1985 (FBIS 30-04-85; NYT 04-05-85), prior to 1987 only one Nicaraguan helicopter had been downed (FBIS 05-12-85). After the United States Congress approved \$100 million for the contra in June 1986, however, the contra asked for more sophisticated surface-to-air missiles (NYT 27-06-86). The United States supplied the contra with Redeye missiles, creating the unusual situation of a "guerrilla" force possessing more advanced anti-aircraft technology than any government army in the region (FBIS 28-07-87). From May 1987 on, the contra began downing Nicaraguan helicopters regularly. By November, the government acknowledged losing ten helicopters in the previous months (NYT 22-12-87), and it was reported that the Sandinista army would not use the helicopters in subsequent military actions (LP 11-11-87). This seriously hampered the effectiveness of an army "almost completely dependent on helicopters to ferry troops and supplies" (NYT 28-06-87). By September, it was

⁹¹Official data on deaths in the Sandinista armed forces provide an index of this intensity. Some 300 soldiers were said to have died in all 1983 (B 28-12-83). "Approximately 1000" died in 1984 (FBIS 27-12-84). In 1985 and 1986, just under 100 soldiers were being killed monthly (NYT 31-12-85; FBIS 02-01-87). In 1987, over 1,700 soldiers and reservists were killed, almost 150 per month (FBIS 31-12-87).

reported that for the first time in the war the contras were on the verge of establishing a foothold inside Nicaragua, in the Boaco-Chontales region east of Managua (NYT 13-09-87).

A further concern for the Sandinista leadership was the fact that the USSR was signalling a reduction in support for Nicaragua even while the United States was increasing its support for the contra. In August 1986 a Soviet technical delegation that was expected to arrive with \$50 million in aid came empty-handed, and warned that the USSR would no longer be able to meet all Nicaragua's oil needs. By mid-1987 the government publicly admitted that only 40% of its required oil supply had been guaranteed (FBIS 02-06-87). From this point on, the government would be engaged in a constant scramble to maintain oil supplies.

There was thus great concern that the contra threat would continue indefinitely, and that the government would no longer receive the support needed to confront that threat and hold the economy together. These concerns were heightened by the Reagan administration's announced intention to seek a further \$270 million in aid for the contra. Ortega and those who supported him calculated -- correctly, as it turned out -- that showing flexibility on the question of simultaneity would undercut United States Congressional support for the contra⁹².

Thus, in late September 1987, the government permitted the reopening of La Prensa, which had been closed in June 1986 after the United States Congress' contra aid vote⁹³. Despite government hopes that the opposition paper would adopt a more sober tone, the resurrected La Prensa, now free of prior censorship for the first time since

⁹²Indeed, it was reported that United States officials were counting on Sandinista inflexibility to create momentum for the contra aid bill (NYT 15-10-87). Ortega was acutely aware of the double standard on the whole question of compliance with the regional peace accord: "Everyone is watching what Nicaragua will do. No one is aware of what Honduras, El Salvador, and Guatemala are doing" (FBIS 06-10-87).

⁹³The decision was not to the liking of all National Directorate members. Just twelve days before La Prensa was given permission to reopen, Jaime Wheelock promised a meeting of FSLN militants that the paper would only reopen "when it is no longer an instrument of the CIA" (B 07-09-87).

March 1982, was more vitriolic than ever. The government also repealed the 1981 law that called for the confiscation of the assets of persons absent from the country for more than six months (chapter five)⁹⁴.

In the coming months, the government would move farther beyond minimum compliance with the Esquipulas II agreement, agreeing to indirect negotiations with the contra, and then to direct negotiations. This decision reversed the long-standing pledge of the FSLN never to negotiate with the counter-revolutionary "beasts"⁹⁵.

Though seeking to promote "national reconciliation," these FSLN concessions convinced the more hard-line elements of the bourgeoisie that the Sandinistas were on their last legs. Nicaraguans, exulted COSEP head Enrique Bolaños,

are no longer afraid of the Sandinista Defence Committees, nor of listening to counterrevolutionary radio stations or the Voice of America at maximum volume. Now we just have to strike the final blow and reverse the actions of Sandinism (END 24-08-87).

The next phase of FSLN-bourgeois relations would be marked by the hard-line bourgeoisie's attempt to deal that final blow, and the FSLN's attempts to stave it off.

D. Agrarian Reform

We saw in the previous chapter that by late 1984 Agriculture Minister Jaime Wheelock was promising private producers in different parts of the country that there would be no more expropriations in their regions, other than those to punish "counterrevolutionary" activity. Agrarian reform expropriations in 1984 were down by more than half in relation to the previous year, and the government believed it could meet

⁹⁴The repeal law (Law 30), however, ratified all actions undertaken under the original decree.

⁹⁵Tomás Borge's 1985 assertion that "Dialogue with the contras would mean abandoning all our revolutionary principles" was typical of the Sandinistas' long-standing position (FBIS 23-04-85). As recently as August 1987, Daniel Ortega had declared that "we maintain the principle of not negotiating" with the contra, who are "nothing more than paid U.S. government employees" (FBIS 11-08-87). The November 1987 rally at which Ortega announced indirect negotiations with the contra was the first time I had ever heard people at a Sandinista rally express disagreement with a leadership announcement.

the demands of those peasants still without land with a judicious transfer of land from the state sector, some expropriations of private producers, and the integration of the landless into existing production cooperatives. For 1985, MIDINRA planned to transfer 76,000 hectares of land to production cooperatives, and a further 7,000 hectares to individuals. Both figures were well below 1984 transfers. Thus, it was hoped that peasant land hunger could be met while guaranteeing the property rights of the "patriotic" agrarian bourgeoisie.

Peasant initiatives, however, dashed this hope in mid-1985. In early June, landless peasants seized several private estates in the Masaya area, near Managua. The department of Masaya, with the highest rural population density in the country, had been a focus of land tension since 1979. Both before and after the insurrection, peasants seized land which was then worked collectively until the end of 1979. In 1980, however, the state either turned the seized land into state farms or returned it to its former owners (M. Ortega 1985, 10). 1,400 hectares of land were seized in 1983 as unemployment in the department rose, but pressures continued as a weakening in the department's artisan economy removed a traditional safety valve for the rural unemployed. Because large farms in the area were in general efficiently used, there was little land available for agrarian reform purposes. It is estimated that by mid-1985 just 15% of Masaya-area families needing land had benefited from the agrarian reform.

It appears that throughout early 1985 local UNAG activists were helping landless peasants organize themselves to present their demands for land to MIDINRA. But on June 7, the peasants decided not to wait for the Ministry's response, and seized several farms -- including that of COSEP leader Enrique Bolaños. The peasants began to plant corn the same afternoon, and vowed not to give up the land, which they said had been taken from their fathers and grandfathers during the 1950s.

Jaime Wheelock's first reaction to the seizure was negative, referring to the need to respect national unity. But a week later the government accepted the peasants' demands, and tried to reach compensation accords with the owners of the land. Accords were

reached with all the owners except Bolaños⁹⁶. In total, some 5,000 hectares were affected, including 1,400 belonging to Bolaños (Envío, September 1985). Significantly, the land was transferred to the peasants in individual form, signalling a relaxation of the government's policy of promoting cooperative development⁹⁷.

In October a similar case occurred, as peasants seized over 400 hectares of land in the department of Matagalpa. Once again MIDINRA accepted the seizure, and ministry officials said that there were many similar situations developing throughout the Matagalpa-Jinotega region, which also happened to be one of the areas of intense contra activity (END 16-10-85; B 14-10-85).

Far from strengthening the security of bourgeois property rights, the government now seemed to be returning to the immediate post-triumph policy of offering *ex post* legalization of peasant land seizures. One COSEP leader complained:

Finally, it seemed that the [FSLN], after six years' of experience in administering the country, was becoming a bit more pragmatic... We thought we were arriving at a real understanding. But suddenly we find them starting to stir people up... (Díaz 1985).

But the government's willingness to condone land seizures and accept the granting of land titles to individual peasants reflected the same "pragmatism" that had inspired many policy changes in 1985. Faced with a tension between two class demands -- that of the rural bourgeoisie for security of property, and that of the landless peasantry for land -- the FSLN decided in 1985 that the peasantry represented the more urgent problem. This decision reflected the broader concern to secure the peasantry's support for the government. The events in Masaya brought on a rapid acceleration of the agrarian reform. The land transferred to cooperatives and individuals from June to the end of

⁹⁶Bolaños was offered two hectares of state land for every one he lost in the land seizure, but rejected the offer because state land was "illegitimately obtained" (FBIS 09-07-85).

⁹⁷Jaime Wheelock presented this shift as a response to the same peasant backwardness that cooperatives and state farms were to have overcome. Cooperatives remained, Wheelock noted, "the most appropriate form of organization because they raise the social and economic level in the rural sector," but they were "complex," and required a "certain level of cultural understanding," which the peasantry lacked (JPRS LAM-85-086).

1985 equalled nearly half the amount transferred from the beginning of the reform process to June 1985 (M. Ortega 1986). Total transfers to cooperatives for 1985 were nearly double their planned level, and 100,000 hectares were transferred to individual peasants, almost fourteen times the original plan (MIDINRA 1986). Nearly all of the transfers to individuals occurred after the Masaya land seizures.

At the same time, the FSLN hoped that it could use the peasant land pressure to strengthen the "patriotic" inclinations of the agrarian bourgeoisie. A late 1985 National Directorate document outlining strategy for 1986 stressed that strengthening of the "alliance" with the peasantry should come at the expense of "enemy landowners" (Dirección Nacional 1985b).

The land problem was also exacerbated by the contra war, which by early 1986, had led to the transfer of some 40,000 families out of the war zones (Wheelock 1986c, 35). The transfer furthered military objectives, but also represented, as an observer wrote in 1985,

a gigantic reordering of population, and an important modification in the socio-economic structure of the affected regions, which will facilitate the promotion of works of progress and social services (PP, April 1985).

Thus, the war was permitting the realization of an old Sandinista project: the gathering together of a dispersed peasantry in order to promote its modernization⁹⁸. While the FSLN was making concessions to "peasant backwardness" by increasing the transfer of land to individuals, it had not abandoned its project for the transformation of the peasantry.

In early 1986, the agrarian reform law was amended to give the government more flexibility in meeting peasant demands. The new law removed the lower size limits on expropriations. The law also gave the government the power to expropriate land "for

⁹⁸As an official commented with respect to a 1983 displacement of some 500 peasant families who lived near the southern border:

in the medium and long term, the revolution will be able to take to these brothers the basic social services which they could not get before because of their dispersal in the middle of the mountain (JPRS 84085).

reasons of public utility or social interest" (Law 14)⁹⁹. This clause essentially created an all-purpose mechanism for expropriating specific land parcels, without having to declare an entire area an "agricultural development zone," as was necessary under the old law (see chapter five).

Despite the "tilt" to the peasantry in 1985, the FSLN tried to maintain an inter-class balancing act in the countryside. The new agrarian reform law gave the government the legal right to expropriate land at will, but full recourse to this legality would have undermined the FSLN's efforts to consolidate the sector of "patriotic producers." Thus, though the new law appeared to weaken property security, Jaime Wheelock signalled the government's intention to use the "public interest" clause sparingly, to avoid hurting "the traditional reality of the countryside"¹⁰⁰. Where land was required that could not be expropriated under the abandonment or underuse clauses of the reform law, Wheelock promised, the government would seek to negotiate its purchase or exchange for other land. Further to reassure private producers, Wheelock noted that the majority of land transferred to peasants in 1986 would come from state farms or unused national lands (1986c, 59ff). Despite the use of state lands, however, total expropriations doubled in 1986 to 135,000 hectares, the highest level ever.

While the response to peasant land demands had to be coordinated with the project of building bridges to the "patriotic producers," it had to be balanced with other policy objectives as well. We noted in the previous chapter that agrarian reform policy had

⁹⁹For a good summary of the law, see Lúciak (1987).

¹⁰⁰Bulmer-Thomas (1987, 258) argues that the 1986 agrarian reform law represented "an end to the state's efforts to reach an accommodation with the rural bourgeoisie." But Bulmer-Thomas has focused too much on the difference between the 1986 and 1981 laws, and too little on the actual application of the laws. It is interesting to note, for example, that the Agrarian Tribunal almost never overturned expropriations in the early years of the reform. In April 1982, the Tribunal reported that it had confirmed the expropriations in all sixty-two cases it had heard to that point (FBIS 29-04-82). Later in the decade, however, landowners were able to win appeals against expropriation. It was reported in 1987 that 40% of the land expropriated for idleness in the previous two years had been returned to owners after investigation (END 15-07-87). Thus, while the 1986 law may have been more severe for large producers than the earlier one, the overall agrarian reform process was milder.

originally sought to protect the modern pole of Nicaragua's bimodal agricultural economy. The rapid transfer of land to cooperatives in late 1983 and 1984 had threatened that modern pole somewhat, and the 1985 acceptance of the need to transfer land to individual peasants represented a further sacrifice of modern agriculture to the goal of "strengthening the alliance with the Revolution in the countryside," as an internal FSLN document put it (Dirección Nacional y Asamblea Sandinista 1986)¹⁰¹. The same document noted that the government had yet to find the correct "technical-economic structuring" to accompany changes that had been dictated by political objectives. There was thus great concern that the "alliance with the peasantry" was being purchased at the expense of long-term economic stagnation¹⁰².

The agrarian reform's weakening of the modern pole of the bimodal system also had implications for state dominance of the economy. We noted in chapter four that this project had reinforced the FSLN's bias for large-scale agricultural production. The explosion of cooperatives not closely linked with MIDINRA, from 1984 on, and the 1985 increase in land transfers to individual peasants, made the types of rural economic relations envisioned in the state-dominant economy seem increasingly unrealistic. Jaime Wheelock would later comment that it was the growing role of the peasant economy, more than the survival of capitalist enterprise, that pushed the FSLN towards a "commodity economy, away from centralized planning" (1990, 18).

Concerns over the long-term implications of the agrarian reform, along with the FSLN's belief that the contra were now surviving more because of United States technology than peasant support, led to a slowing down of the agrarian reform in 1987. The SPP's 1987 economic plan called for changes in land tenancy to be subordinated to

¹⁰¹ Land transfers to individuals represented 47% of all transfers in the 1985-1987 period, up from just 18% in the 1981-1984 period (I. Gutiérrez 1989, 119).

¹⁰² An associate of Henry Ruiz told me in mid-1987 that he had been urging Ruiz for some time to "attack" the agrarian reform process, which he felt was leading agricultural production to ruin. Similar concerns were also expressed at an internal SPP seminar in January 1987.

"the logic of the economic and social transformation" and to the needs of military defence. Land should be transferred, the plan urged, only under the condition that it improve in productivity, and emphasis should be placed on moving landless peasants into previously-deserted war zones in which the contra presence had now been diminished. The plan also urged that alternatives to land transfers be sought for landless peasants (SPP 1987, 3f).

One such alternative was to join cooperatives that needed to replenish their membership. Voting with their feet on the FSLN's preference for collective agriculture, an estimated 25% of members had deserted production cooperatives from 1983-84 onwards (B 30-01-87)¹⁰³. This had led to a situation in which much land transferred to cooperatives was standing idle, and the 1987 economic plan called for one-quarter of transferred land to come from the cooperatives (SPP 1987).

In 1987, only 38,500 hectares of land were expropriated under the agrarian reform, down over 70% from the previous year. Some 125,000 hectares of land were transferred. The MIDINRA vice-minister in charge of the agrarian reform declared that "the transformation of the countryside is fundamentally complete" (END 18-12-87). This position would be maintained throughout the next two years.

E. Conclusion

By late 1987, the FSLN leadership knew that it was entering a very difficult period. The Esquipulas accord would make it more difficult for the FSLN to control the domestic political space as thoroughly as before. Directorate member Bayardo Arce commented that the FSLN was "entering a period of acute ideological struggle" (B 06-09-87). The accord also strengthened the FSLN's commitment to hold a presidential election

¹⁰³ Collective production was being eroded even within the production cooperatives. Land devoted to family plots was expanding inside most cooperatives, and many cooperatives had undergone a *de facto* transformation into "idle furrow" cooperatives [*cooperativas de surco muerto*] (Envío, June 1987). In this form, the land was divided up among members, but instead of marking the division lines with fences or other obstacles, a furrow-width of land was left idle. This allowed continued enjoyment of economies of scale from mechanization.

in 1990.

Thus, the FSLN found itself three years away from presidential elections, and in the midst of a severe economic crisis¹⁰⁴. As Tomás Borge admitted, support for the revolution was being "worn out": there was now "discontent, not just among certain sectors, but I would say amidst the entire population of the country" (B 04-10-87). The FSLN had to hope that, despite the economic crisis, a large part of the population would remain loyal to the party that had overthrown Somoza and stood up to the Yanqui empire, and that the rest would divide their support among a plethora of opposition parties. The first hope was fulfilled to a surprising degree. The second was not.

¹⁰⁴Under the constitution, presidential elections were not to be held until November 1990.

Chapter 8: Triumph of the market (1988-1989)

In the 1988-1989 period, economic reforms scuttled most key elements of the state-dominant economy project. Price controls were abandoned, and the market was allowed to determine ever more significant economic variables, including, by 1989, the exchange rate.

Politically, the degree to which support for the FSLN had depended upon the containment of market forces became even clearer. The increase in tensions within the Sandinista camp provoked an erratic political strategy on the part of the leadership, with attempts at reconciliation with the bourgeoisie alternating with attacks on that same class. The agrarian reform had by and large run its course.

This chapter will begin with an overview of economic performance. As in the previous chapter, the questions of state organization and price policy will be combined, in section B. The following two sections will examine relations with the bourgeoisie and the agrarian reform, respectively. Section E will examine the Sandinista revolution's "final act," the 1990 election.

A. Overview of Economic Performance

Nicaragua's real GDP dropped a total of 13.5% in the 1988-1989 period (Table A.1). Real GDP in 1989 was 38% below its 1977 level. GDP per capita dropped 19.2%, ending the period at just 42% of its 1977 level¹. In 1989, critics of the government began speaking of the "Africanisation" of the Nicaraguan economy (FBIS 24-03-89). In mid-1989, the New York Times cited a confidential study prepared for the Nicaraguan government which suggested that per capita income had fallen below that of Haiti, and was now the lowest in the hemisphere (NYT 26-06-89).

Real GDP dropped 10.9% in 1988 alone, the sharpest drop in the FSLN's decade in power. Much of this drop can be attributed to problems associated with changes in

¹GDP per capita rose 2% in the rest of Central America over the period, and fell 2% in Latin America as a whole.

economic policy, to be discussed below. The GDP drop was compounded by Hurricane Joan, which ravaged Nicaragua's Atlantic Coast in late October. The official government estimate put the hurricane's damage at \$828 million, of which \$98 million represented direct losses of production (FBIS 16-11-88; López 1989, 83).

Exports (FOB) dropped by 20% in 1988, to just \$235 million. Most of this drop was reversed in 1989, as exports rose to \$292 million (Table A.2). Imports (FOB) remained stable in 1988, but dropped \$97 million in 1989. The current account deficit, then, was reduced sharply in 1989, from \$865 million to \$571 million.

As in previous years, CMEA countries financed the bulk of the current account deficit, providing an estimated 80% of 1988 aid (B 08-04-88; FBIS 12-04-88). While overall Soviet aid remained stable in rouble terms, supplies of oil were tightened. In January 1988, Nicaragua and the USSR signed an aid accord for the 1988-1990 period providing an annual oil supply of just two-thirds the level of 1987 (Stahler-Sholk 1990, 66). In a speech to CMEA in mid-1988, Minister for External Cooperation Henry Ruiz complained that CMEA aid "has not been sufficient" (FBIS 29-07-88). At this point, however, the CMEA countries had more pressing matters to worry about.

The external public debt jumped by \$1 billion in 1988 to \$7.22 billion, the sharpest annual increase in the country's history. At the end of 1989, the debt stood at \$7.57 billion, twenty-six times the value of Nicaragua's 1989 exports (Table A.2)².

Though the 1988 economic measures were aimed in large part at containing the fiscal deficit, the 1988 deficit jumped to 26% of GDP, up from 17% in 1987 (Table A.4). The deficit dropped sharply in 1989, however, to just 5% of GDP. Inflation reached 33,600% in 1988, product in large part of an intensified "adjustment spiral." The rate of inflation was lowered to a much more modest 1,690% in 1989. For the final five months of 1989, the CPI rose at an annual rate of just 439% (*Análisis*, January 1990).

²In January 1990, Nicaragua's debt was trading at 1% of its face value on the secondary market. The next lowest figure for Latin America was Peru, whose debt was trading at 6% (ECLAC 1990).

B. Economic adjustment: the triumph of the market

1. The "Valentine's Day Blow"

On February 14, 1988, President Ortega announced the most complete package of economic policies since the shift of direction of February 1985 (Ortega 1988a). In a speech to the nation, Ortega reminded Nicaraguans of the cost of the contra war, and of the economic policies implemented in 1985. These policies, Ortega stated, had failed to stem inflation, "which continues to grow, profoundly affecting the productive sector, and in particular formal sector workers." It was time to recognize, Ortega declared, that the 1985 measures were "exhausted," and new measures were required to "confront this critical situation."

After this preamble, Ortega announced a currency reform. Over the following three days, Nicaraguans would trade in their currency for "new *córdobas*," at a rate of 1000:1. After February 17, the old *córdoba* would cease to function as legal tender. After assuring Nicaraguans that "those who have obtained their money in a legal fashion" had nothing to fear from the reform, Ortega announced that no person could trade in more than ten million old *córdobas* in cash. Amounts in excess of this would be frozen in special accounts for a time³.

In a move aimed at recovering some of the resources lost by the state complex in previous years owing to negative real interest rates, Ortega announced that a "conversion factor" would be applied to monetary obligations before converting them into new *córdobas*. Thus, for example, a bank loan issued in the last trimester of 1986 would be multiplied by 19 before being converted into new *córdobas* (Presidential Decree 306)⁴.

³The Central Bank later announced that these amounts would be frozen for one year for the first 1,000 new *córdobas*, and two years for the rest (LP 07-03-88).

⁴The basis for calculating the table of conversion factors is a mystery. The factors do not reflect such possible criteria as the CPI or the GDP deflator. Compared to those criteria, the conversion factors seem much more severe for obligations contracted shortly before the monetary reform than for longer-standing obligations.

These conversion factors would also be applied to obligations such as unpaid taxes and fines⁵.

The new *córdoba* was pegged at ten to the dollar, which, Ortega promised, would serve as a unified exchange rate for all exports and imports. This represented a devaluation of from 2,700% to 14,300%, depending on the figure one used for the previous official exchange rate⁶.

The monetary reform was to be accompanied by a realignment of relative prices. "We are giving work its true value," Ortega declared, "we are giving goods and services their true value"⁷. Increases of official prices of consumer goods raised the total cost of various baskets of basic consumer items by 129% (*Envío*, April 1988) to 273% (Stahler-Sholk 1988a, 29)⁸. Basic salaries, however, were increased by an average of 385%. These increases were skewed in favour of the upper levels of the SNOTS scale: the minimum wage was increased just 305%, while the maximum increased 662%. Thus, the salary "fan" was widened from eight to fifteen (Table C.14). At the same time, however, the government sharply contracted the system of salary bonuses. The only bonuses retained were for seniority, a productivity bonus for agricultural workers, and bonuses that some

⁵A more generous set of conversion factors was established for state obligations to private citizens, though such obligations were generally of little importance. Included were the agrarian reform bonds issued to those who had been compensated for nationalized land. The value of a bond issued in 1982, for example, was multiplied by 89 before being converted into new *córdobas*.

⁶Prior to the reform, the official rate was seventy old *córdobas*, or .07 new ones, to the dollar. But the "monetary stabilization rate" imposed on imports in 1987 had raised the effective rate of exchange for imports to either 170 or 370 (see chapter seven).

⁷Such references to the "true value" of things would become frequent in the 1988-1989 period. One gets the impression that the FSLN leadership had identified a need to reconstruct the "fetishes" that years of topsy-turvy prices had destroyed. Such "fetishes," as was noted in chapter four, can play an important role in dampening political struggle over economic policy.

⁸According to the CPI in effect prior to 1988, overall inflation for February was just 47%. According to a new basket introduced in 1988, inflation was 91% in February.

companies could negotiate with their workers (B 15-02-88)⁹.

It is interesting that, when the Employment and Salaries Department of the SPP was asked to recommend a new salary scale to accompany the monetary reform, we were told to peg the salary of the average worker to the cost of the basic consumer basket. Thus, the February 1988 measures resurrected the notion that the basic salary should allow a worker to get by, albeit modestly. Ortega declared, echoing the language that had accompanied the February 1985 reforms, that "We are protecting the formal sector, and returning to wage labour part of the purchasing power it has lost in these past years" (Ortega 1988a). This commitment would vanish in the months following the reform, as it had in 1985.

The official presentation of the new measures stressed the need to "defend" the new prices and exchange rate. "We are all obliged," Ortega declared

to defend these measures, to demand respect for these new prices. No one in this country, none of you, fellow Nicaraguans, can yield to the pressure of the speculators. We must all demand, in a combative fashion, that the new schedule of prices and salaries be respected (1988a).

In the same line, the lead headline in the Barricada issue announcing the measures was "Defend the new *córdoba*" (B 15-02-88). Thus, as in 1985, the new measures were accompanied by calls to crush "speculation." We will see in a moment that these calls were converted into a short-lived attempt at "social control."

Certain critical elements in the new economic package were not announced during Ortega's February 14 speech, and were only made public through various announcements in the following weeks. In mid-March, the government announced that the banking system would finance only 80% of the working costs of agricultural producers (B 19-03-88). Similar announcements had been made in past years, but this time the government was actually prepared to put the policy into effect. Advocates of a "productionist"

⁹The latter bonuses were highly restricted: they could total no more than 20% of the collective payroll of a company, they had to be paid from company profits (B 17-02-88), and they could only be granted by companies that did not exceed planned costs (B 09-03-88). Under the difficult conditions facing companies after the monetary reform, such restrictions made these bonuses exceedingly rare.

orientation within the government had suffered a significant set-back. In April, industrial sector managers were informed of the government's intention to reduce short-term credit to industry and commerce by 10%, and long-term credit by 30% (B 11-04-88).

The new economic policy also sought to reduce the fiscal deficit to 8% of GDP, from its 1987 level of 17% (B 04-04-88). This was to be achieved through an increase in the tax burden and a reduction in government spending. This latter goal was to be accomplished through the "compression" [*compactación*] of the central government, a strategy announced in March. The compression aimed at reducing employment in the central government bureaucracy by 10%. It was hoped that jobs could be eliminated without hurting government performance by combining certain ministries, and restructuring others, such as MIDINRA¹⁰.

More than just a fiscal measure, the compression reflected a more modest conception of the state's role in the economy. In announcing the compression at his ministry, Wheelock commented that MIDINRA "is letting go of its functions of administrator, entrepreneur, large investor and educator, and will take on a purely regulatory role" (B 18-03-88).

In correspondence with this changing view of the state's role, public enterprises were to be granted more autonomy. In essence, administrators were told to undertake the shift from the state-enterprise relation typical of the socialist economy to the autonomy associated with a market system. Luis Carrión told state managers that the government would no longer act as their "Godfather": "we will not be unconditional advocates of state entrepreneurs" (B 27-04-88). In particular, Carrión warned, state companies, like their private counterparts, would have to meet their fiscal obligations and adapt to the new credit policy.

As they were promised more autonomy, state firms were also told to adapt their

¹⁰Thus, for example, the Ministries of Industry, External Trade and Internal Trade were fused into a single ministry, under the control of National Directorate member Luis Carrión. The Ministries of Construction, Transport, and Housing were also fused (B 05-04-88).

behaviour to the new economic thinking. SPP head Alejandro Martínez commented that

Managers must be efficient and guarantee that their production has quality. They must learn marketing techniques. Economic criteria should determine decisions on the administration of resources (B 23-05-88).

In the words of the manager of FANATEX, one of the largest state industries, state companies had to confront a shift from "a centralized, directed economic model, with a closed market," to "an open market, that is, one governed by the capitalist laws of supply and demand, in which one must maximize the profitability of capital" (B 17-09-88)¹¹.

While state enterprises had been exhorted to be efficient in the past, concrete measures were now being demanded of them. One of these was to trim their payroll. In fact, the bulk of the 10,000 jobs lost in the 1988 "compression" were in the state enterprises, rather than the central government (Pérez and Somarriba 1989, 15).

In distinction to the 1985 measures, it is not clear whether any overall logic underlay the February 1988 package. Ortega's presentation gave the impression that a central goal of the measures was to end inflation. It should have been clear from the experiences of the 1985-1987 period, however, that a devaluation and salary increase of the magnitude undertaken would intensify the "adjustment spiral." Nevertheless, the government projected that annual inflation rates would be reduced to 100% after implementation of the measures (Arana 1990, 19). It was hoped that the reduction of the fiscal deficit and the reduction of the real money supply through the monetary reform would dampen "objective" inflationary pressures¹². In addition, the architects of the

¹¹As in early periods, the FSLN leadership would continue to give companies conflicting signals. Thus, in the same speech in which he cut the apron strings of state companies, Luis Carrión declared that "entrepreneurial decisions cannot be based upon maximizing profits, but must take the interests of society into account, even when they go against the company, especially in the case of essential products" (B 27-04-88). In actual practice, however, enterprise decisions were increasingly governed by the profit motive, leading to behaviour that irritated the government, and in some cases led to a resumption of controls, as shall be seen below.

¹²The government estimated that 10% of the old money supply was frozen in the special deposits accounts, while a further 10% was not exchanged for new *córdobas* (B 08-03-88). It was assumed that this latter 10% was in the hands of large merchants and others who did not want to answer questions concerning the provenance of their earnings.

package apparently believed that the monetary reform and the "social control" campaign to "defend" the new official prices would be sufficient to break inflationary expectations, thus addressing the "subjective" component of inflation (Stabler-Sholk 1990, 72; Arana 1990, 19; Acevedo Volg 1989, 19). This hope may have been based on the "heterodox" anti-inflation strategies pursued in various Latin American countries. As Adolfo Acevedo Volg pointed out, however, key prices such as the exchange rate had already been realigned in these other cases before an attempt to stop inertial inflation was undertaken (Acevedo Volg 1989, 20).

A similar ambiguity underlay the government's promise to "protect the formal sector." Had the policy of stabilizing real salaries been maintained, the measures would have addressed the labour supply problem that was hurting the formal sector. In general, however, the measures represented a sharp shift from a "productionist" to a "financial" orientation. As such, they could be expected to hurt certain productive sectors which had benefitted from the "productionist" orientation. The agro-export sector is a case in point. The unification of the exchange rate, which sought to eliminate exchange rate loss, essentially returned exporters to the pre-1982 situation, in which export prices were determined by world prices¹³. An analysis undertaken by MIDINRA, the prime proponent of the "productionist" orientation, suggested that "nearly all export products" would be unprofitable with the new structure of costs and official prices. The implication of MIDINRA's analysis was either that the three- to fourteen-thousand percent devaluation that accompanied the measures was insufficient, or that the government should abandon its hopes of unifying the exchange rate. The Central Bank, on the other

Combined with the official price increases that accompanied the monetary reform, this 20% reduction in the nominal money supply represented a sharp reduction in real liquidity. Had the money supply really been an active cause of the inflationary spiral, rather than -- as was argued in the previous chapter -- a relatively passive reflection of inflation, this reduction in liquidity should have had a dramatic impact on inflation.

¹³Thus, for example, the new producer price for coffee was C\$1,130, representing a world price of \$133 times the C\$10:\$1 exchange rate, with C\$200 deducted for processing costs (END 16-04-88).

band, which was now the main institutional advocate of the "financial" orientation, argued that profitability would be restored over time as producers shifted their production technique to adapt to the new relative prices (Stahler-Sholk 1988b, 45). What needed to be avoided, in the Central Bank analysis, was the establishment of producer prices on the basis of whatever costs happened to emerge from the current practices of producers: only a degree of pressure on producers would force them to address problems of "X-inefficiency" and adapt to realistically-priced imported inputs¹⁴. As the Central Bank won this argument for the time being, it appears that government decision-makers were willing to risk a temporary downturn in exports. Thus the overall degree of protection which the new measures afforded the formal sector was debatable.

Similar observations can be made with respect to the shift in credit policy. One may note, first of all, that the unilateral revaluation of outstanding loans, which essentially made real interest rates positive after the fact, left producers with dramatically higher payments owing to the banks. Oddly, however, the new measures left current interest rates practically untouched: the highest nominal interest rate for agricultural producers was just 30% (B 19-03-88). Instead of using higher interest rates to dampen demand for credit, the government tightened credit rationing. The difficulty with this strategy, as noted in chapter six, is that many producers had few inflation-proof stores of value available which would allow them to meet their 20% share of production costs with resources left over from the previous year¹⁵. Even had such inflation-proof savings mechanisms been available, it is probable that many peasants would not have been able to accumulate enough in previous years to make the contribution to their production costs that the banking system was demanding of them. It would quickly become clear that the

¹⁴Interestingly, it appears that smaller producers were more responsive to changing relative prices than state and large private producers (Stahler-Sholk 1990, 83).

¹⁵While some producers would have regularly bought dollars through the 1980s as a store of value, this option was not readily available to all rural producers. In addition, small producers did not have the storage facilities necessary to use their own grain production as a store of value.

new credit policy was endangering the spring planting. We will return to this point in a moment.

If the likely impact of the new policies upon production was unpredictable, so too was their political impact. The monetary reform process itself does not appear to be very significant in this regard. Though COSEP predictably attacked the freeze placed on old *córdoba* holdings in excess of C\$10 million as yet another example of the "lack of security regarding the right to own property" (FBIS 07-03-88), it appears that less than one in a thousand families was affected by the measure (B 03-03-88).

More problematic was the "compression." Even in January Ortega had declared that the difference between Nicaragua's response to economic crisis and that of other Latin American countries was that jobs would not be eliminated in Nicaragua (FBIS 04-01-88). Firing people had traditionally been viewed as a typically capitalist and IMF-oriented response to economic difficulties¹⁶. Now the government was declaring the need to "eliminate the conception that everyone has a right to a job independently of whether this job is indispensable," as Finance Minister William Hupper put it (B 04-04-88)¹⁷.

The government sought to soften the compression process by establishing a relocation service, and Labour Minister Benedicto Meneses promised that "efficient and disciplined" workers who had been fired would be eligible for unemployment insurance at 100% of their salary for two months, and 75% for the third month (B 20-03-88). Nevertheless, there were many complaints about the handling of the lay-offs. It was charged, for example, that many managers were deciding who was to lose their jobs without consulting workers or their union. Some managers, anxious to cut payroll without

¹⁶In a 1986 speech to workers, Ortega had declared that we will never allow ourselves to be influenced by the philosophy of exploitation, by the philosophy of the I.M.F., which solves economic problems in other places to the detriment of the workers, by putting workers on the street (1986b, 13).

¹⁷Attacks on full-employment policies have been a critical element in the work of ideological reconstruction being undertaken by Soviet and East European market reformers (Ryan 1991).

actually reducing active staff, singled out women on maternity leave and men mobilized for defence tasks, in defiance of explicit government guidelines (B 17-04-88). La Prensa claimed that the lay-offs were being used to purge those who did not proclaim their loyalty to the FSLN (FBIS 02-09-88), and even observers sympathetic to the government felt that the "compression" was allowing managers to rid themselves of "troublesome" workers. In addition, the Ministry of Labour was repeatedly criticized for dragging its feet in establishing an effective relocation service (B 03-05-88; B 14-05-88).

Another potential political cost of the new policies concerned the government's relationship with the peasantry. As noted above, peasants were particularly threatened by restrictions on credit. In addition, the official price of beans, a key peasant crop, was not raised at all in the February package. While peasants were theoretically free to sell their beans to whomever they wished, the proclaimed objective of "social control," if successful, would reduce the prices that private traders could offer peasants, by increasing the risks of selling beans to consumers at higher-than-official prices (Zalkin 1988a, 50)¹⁸.

Finally, the policy of "social control," had it been successful, could be expected to generate the same political challenge to the FSLN's relation with the urban popular *barrios* as did the 1985 economic package, a challenge which helped scuttle the 1985 reforms.

Any analysis of the political impact of the February package is highly speculative, as events in subsequent months bore so little resemblance to what decision-makers had expected, and the policies formulated in June to address these unexpected events bore so little resemblance to the February measures, that the February package must be viewed as a mere way-station on the road to the radical policy changes of June 1988. The most salient characteristics of the months following the February package were the collapse of

¹⁸Thus, shortly before the reforms, a pound of beans sold in the unofficial market for 10,000 old *córdobas* (LP 02-02-88). With a general increase in the price level of roughly 100%, one might expect a new unofficial-market price of twenty new *córdobas*. But the new official price was just five new *córdobas*, and the government was calling on the mass organizations to "defend" this price. Obviously, one would expect a private trader who ran great risks by selling at any price above five to offer peasants a much poorer price than traders who could sell at twenty without fear of harassment, which was essentially the situation of private traders before the reforms.

the "social control" effort, the persistence of inflation, and the temporary paralysis of policy in the face of these phenomena.

An active policy of "social control" was launched in a rather spectacular fashion the week after the announcement of the new economic measures. In a February 20 speech, Ortega called on citizens to take action against merchants who did not respect the new schedule of official prices. Those who refused to lower their prices, Ortega said, would go to jail, "even if the merchant hollers his head off... at the CIA newspaper [La Prensa]." "We will see who is stronger," Ortega vowed, "the speculators or the Nicaraguan peasants, labourers and factory workers" (NYT 21-02-88; FBIS 22-02-88).

That same evening, 400 factory workers organized by the Sandinista Defence Committees entered Managua's Eastern Market and forcibly expelled unlicensed merchants operating there (PP, March 1988). Thus began a series of actions throughout late February and March. El Nuevo Diario reported in mid-March, for example, that 1,000 members of "ideological anti-speculation brigades" had raided various markets in the city, confiscating hoarded goods and dislodging illegal merchants. Any merchants carrying more than twenty pounds of basic grains reportedly had their stores confiscated (rpt. JPRS-LAM-88-015). COSEP condemned this "brutal trampling and plunder of our goods" (Envío, April 1988).

The strategy of focusing attacks on illegal merchants continued MICOIN's post-1985 strategy of seeking to avoid a frontal confrontation with all merchants (chapter seven, above). In late February, Ortega commented that

The comrades who work in the markets work hard; they have been working there for years and have good experience as market vendors. They respect the law; they are legal merchants. We must get together with them...

The problem, Ortega argued, was that

These other merchants have suddenly made an appearance in the market; they have shown up at the last minute... They should leave the legal merchants alone (FBIS 29-02-88).

There is little evidence, however, that the mere fact of holding a MICOIN license made the "legal" merchants more willing to respect official prices than their "illegal"

counterparts. Hence the attack on the "illegal" merchants seemed designed rather to keep "speculation" within limits than to eliminate it altogether.

The "social control" actions occasionally took a violent turn. It was reported that one person was knifed by a merchant in the February 20 action in the Eastern Market (PP, March 1988). The New York Times reported various "violent clashes" between police and market vendors (NYT 28-02-88). Bayardo Arce commended the practice of going shopping in groups of ten, so that consumers might defend themselves against the violence of the speculators (FBIS 26-02-88). While the rhetoric of some National Directorate members may have fanned the flames during this period¹⁹, there were also calls from the Directorate to remain within the limits of the law in the fight against speculation (FBIS 26-02-88).

Most observers argue that the attack on speculation failed less for political reasons, as had been the case in 1985, than for technical ones: the new official prices established in the February 1988 package did not take full account of the cost increases sparked by the package itself, hence prices were often set below, not just their market-clearing levels, but their cost of production as well. The citizenry was mobilized to "defend" prices that simply could not be defended for long, without paralysing production (Acevedo Volg 1989, 20; Arana 1988, 18). As official prices began to be adjusted upwards, often in a quite anarchic fashion, the agents of "social control" were demoralized²⁰. Quietly, the social control campaign was abandoned. A mid-April issue of Barricada carried a photo of the Eastern Market with the caption:

Once again, legal and illegal merchants have occupied the streets of the Eastern Market. What results did the Economic Brigades have? The prices of perishables are set by the illegal merchants, and there are no controls (B 13-04-88).

¹⁹As, for example, when Tomás Borge denounced speculation as "counterrevolutionary, because [it] attacks the essence of the revolution" (FBIS 01-03-88).

²⁰The national head of the Sandinista Defence Committees complained that A single body is needed to define and regulate prices, because people really lose confidence when half the world shoots off in different directions (Envío, April 1988).

The abandonment of the social control campaign effectively marked the end of the FSLN's long-standing attempts to control consumer prices. In April, Directorate member Luís Carrión gave an indication of the direction of government policy when he commented that "There are a great number of prices, and when one wishes to set them administratively -- to protect consumers -- one just ends up complicating things." "I think there is a conflict," Carrión added, "between the desire to keep a close eye on prices and the ability to fix them in an expeditious manner" (B 11-04-88).

Increases in official prices and the failure to control unofficial prices implied the persistence of high levels of inflation. According to the old CPI, prices rose 195% in the March-May trimester, while the new CPI registered inflation of 180%²¹. This led to a paralysis of policy similar to that which occurred when the inflation associated with the February 1985 measures proved much greater than expected. Though the February 1988 measures had sought to re-establish realistic prices for labour and foreign exchange, both salaries and the exchange rate were frozen in the post-February period.

Since the government wished to maintain a unified exchange rate, the failure to devalue in the post-February period made export production increasingly unprofitable. Private coffee producers warned in April that their production costs would be at least C\$2,025 per quintal, on the assumption that all necessary inputs were available at official prices. The official producer price for coffee, however, was just C\$1,130 (END 16-04-88).

The exchange rate was devalued from C\$10:\$1 to C\$11:\$1 in mid-April (B 17-04-88). At this point, the dollar was worth approximately C\$100 in the unofficial market. Another mini-devaluation, to C\$12:\$1, occurred in mid-May. The new rate, El Nuevo Diario warned, was "far from the 20:1 rate recommended by various economists to encourage production and facilitate exports" (END 18-05-88).

If the failure to devalue in the face of persistent inflation provoked concerns, the

²¹For the first five months of the year, the two CPIs recorded inflation of 508% and 704%, respectively.

post-February salary freeze was even more controversial. As in 1985, the government had abandoned its stated commitment to protect the real earnings of the formal sector. In response, labour shortages intensified. There were reports of convicts being used at the Chiltepe milk project just outside of Managua (FBIS 26-02-88), and as maintenance workers in the capital, "in response to the lack of workers" (END 13-05-88).

An important difference with respect to the 1985 situation, however, was that the post-Esquipulas political atmosphere permitted much clearer expressions of discontent with the government's policy. In late February, wildcat strikes broke out, even among workers belonging to FSLN unions (NYT 28-02-88). The CGT trade union, affiliated with the Nicaraguan Socialist Party, launched a strike of construction workers. The workers were protesting the February package's elimination of salary bonuses, and what they alleged were excessive work norms in the construction sector (B 01-03-88). The workers demanded a 200% increase in basic salaries, and repeated earlier demands for a suspension of the SNOTS. Though Barricada quickly claimed that the strike was losing strength, and affected only 1,200 of 32,000 construction workers (B 02-03-88), the strike sparked similar actions in other sectors. By mid-March, workers at a Managua hospital, employees of MIDINRA's Chiltepe milk project, and auto mechanics had gone on strike (B 10-03-88; B 17-03-88).

Officially, the FSLN was highly critical of the strikes. It was claimed that the strikers were being coordinated by the United States embassy (B 28-04-88), and Daniel Ortega, in his May Day speech, said that the strikers' demands "have counterrevolutionary connotations" (FBIS 02-05-88). When some of the strikers began a hunger strike at CGT headquarters, police cordoned them off, and briefly arrested opposition leaders who tried to visit the strikers (FBIS 03-05-88; FBIS 05-05-88). The government's response to the strike led the opposition parties to withdraw once more from the on-again-off-again national dialogue process (B 27-04-88).

But while the FSLN and government maintained a hard line during the strikes, there were signs within the FSLN both of sympathy for some of the strikers' demands and

of awareness of an urgent need to find a new salary policy. In mid-March, Wheelock suggested that the decision to eliminate most salary bonuses needed to be reconsidered (B 11-03-88). In May, construction workers who had not joined the strike urged that work norms in the sector be "reviewed" (END 13-05-88; END 20-05-88). Even the Minister of Construction called for more incentives for workers in the sector (B 12-05-88)²².

Attacks on salary policy from within the FSLN bloc intensified in May. Workers at the national bus company, though affiliated with the Sandinista Workers' Central, demanded a 100% salary increase (END 13-05-88). Even Barricada, traditionally a transmitter of FSLN and government policy, joined the campaign for salary increases²³.

Publicly, the National Directorate was displaying little openness to concerns over salary policy. Asked in early June whether the working class was not carrying too much of the burden of economic adjustment, Victor Tirado, the Directorate's liaison with unions, replied:

What is the thought behind that position? That we should attack the bourgeoisie?... The workers should understand that the burden falls on them because this is their revolution... (B1 02-06-88).

Apart from exchange rate and salary policy, a third controversial area of policy in the post-February period was that of credit. In April, the head of FANATEX, a state textile company, warned that the new credit policy was "drowning companies" (B 27-04-88). The gravest concerns were expressed in the agricultural sector. As noted above, producers found themselves doubly squeezed by an increase in payments owing to the banks for past loans and by a reduction in bank financing. In April, UNAG warned that producers were confronting a "grave lack of liquidity," and predicted that many producers

²²The various strikes wound down in mid-May, in response to informal promises that salary policy would be adjusted, as occurred in June.

²³On May 13 the paper ran a front-page article under the headline "[Citizens] urge a dynamic salary policy." The accompanying article commented that "MITRAB has not fulfilled its obligation periodically to adjust SNOTS." Thus, the paper pretended that the post-February salary policy reflected, not government and FSLN policy, but some bureaucratic failing of the Ministry of Labour. Similar articles demanding a salary increase appeared in El Nuevo Diario around this time (END 18-05-88; END 23-05-88).

5

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would not be able to cover 20% of working costs themselves, as demanded by the new credit policy (B 13-04-88). Bank officials, however, insisted that only 80% of working costs could be financed (B 20-04-88)²⁴. According to one study of rural producers, peasants reacted to the liquidity crisis sparked by the new policy by reducing their use of inputs and turning to the informal credit mechanisms which were reappearing in the countryside (Stahler-Sholk 1990, 74).

The difficulties of producers were compounded by delays in the granting of credit for the new agricultural season. UNAG officials pointed out that such delays had occurred in previous years, but they had not had an impact upon production in past years because the banks gave advances to producers²⁵. In 1988 however, such advances were not available (B 02-05-88). The change in policy led to repeated warnings that delays in granting credit would hurt production (END 16-04-88; B 20-04-88).

2. The June 1988 measures

The paralysis which seemed to characterize government policy in the wake of the failure of the February 1988 economic measures was abruptly ended on June 14. In a meeting with "working sectors from across the country" (B 15-06-88), President Ortega presented the broad lines of the new government strategy. Throughout June 14 and in the days following, various ministries announced the concrete policies comprising the new strategy. Despite the greater openness to the market displayed in policy shifts throughout 1987 and in February 1988, the June package represents a key point of inflection in Sandinista policy, and the final abandonment of many of its cherished economic policies.

²⁴In an interesting argument, one bank official suggested that large producers should have no difficulty in finding the resources to finance 20% of working costs, since they were engaged in economic activities outside the agricultural sector (B 20-04-88). The argument implicitly recognized the impossibility of meeting the 20% requirement on the basis of resources generated within agriculture itself, hence recognizing that most smaller producers would be seriously affected by the new policy.

²⁵That is, the banks would informally advance money before formal loan agreements had been signed.

Throughout the speech, Ortega stressed that "We are facing an economy that has been profoundly, seriously, damaged"²⁶. This fact, Ortega argued, had not been sufficiently appreciated: "all sectors have difficulty believing that this country has accrued an economic deterioration in order to win the war." It was not a time to be "thinking of sectoral demands," rather "the fundamental task remains the defence of revolutionary power," which required above all the defence of production and the economy. There were even those in the revolutionary bloc, Ortega complained, who were not clear on this point. This was weakening "political and ideological cohesion," and "this weakness will be expressed throughout the society which we are trying to influence."

As in February, Ortega stressed the importance of controlling inflation. Now, however, the government's objectives appeared more modest: "we must take new measures to tame a horse that is running quickly, a horse that cannot be stopped, but which will not continue to run as fast." "To achieve this," Ortega added, "we must contain salaries, and also demand more from producers." Specifically, producers would be required to pay the "true value" of bank loans. "The truth is," Ortega noted, "credit has been given away in real terms throughout these years." In this respect "we violated all economic rules applied under both socialism and capitalism." Henceforth, Ortega announced, producers would have to repay to the banks the real value they had borrowed from it. This would be achieved by tying interest rates to the rate of inflation. Such a policy, Ortega hoped, would lead producers to calculate more carefully before asking for credit.

On the question of salaries, Ortega began by noting that Nicaragua was a nation of 3.5 million people resting upon a "fragile base" of "real production" made up of just 205,000 workers in agriculture, industry, construction and the banks²⁷. If this productive base had access to "much technology," its numerical size would not be a problem. But as it

²⁶There are at least three printed versions of the speech, in FBIS 15-06-88, Barricada, June 15, 1988, and Barricada, June 17, 1988. Unless otherwise noted, citations are from the last of these three sources, which is the most complete.

²⁷Inclusion of the banking system in the "productive base" of the economy was an innovation.

did not, the situation was "grave." "This means," Ortega argued, "that it is not possible to answer the aggressions of those workers [who demand] more salary, better supplies and better living conditions"²⁸.

"Since 1985," Ortega went on, "we have been fighting a great battle against salary increases, a battle in which the Sandinista Workers' Central and the Association of Rural Workers have shone." Despite this battle, Nicaragua still had "sectors that are weak, in which sectoral demands repeatedly arise, demands that work against the very class interests that we are defending."

Thus, Ortega argued, "salaries cannot be adjusted as workers might wish." Rather, there would be a "minimal" adjustment. At the same time, Ortega promised in an obscure passage, workers in the productive sector would receive incentives to productivity, because such incentives, unlike general salary increases, were not inflationary. The meaning of this promise only became clear with the ministerial announcements that accompanied Ortega's speech (see below).

With respect to the exchange rate, Ortega argued that Nicaragua must cease to price imports in an "unreal" fashion. Henceforth, "the exchange rate will move whenever necessary" to keep prices aligned with world prices, because "Nicaragua cannot be an exception among economies, with different prices, subsidized prices."

These policies, Ortega recognized, would be costly for some sectors of production. Here he indicated that the government was contemplating a triage operation. Nicaragua must work, he argued, to re-establish production "in those sectors of greatest interest, because we cannot do this everywhere." Ortega went on to say that companies like MILCA, the soft-drink bottler, did not represent "real production." Such "real production" was to be found in the countryside, and its prime example was "coffee, the main source of foreign exchange." Hence, Ortega argued, the government should not maintain inefficient employment in urban industry, but should try to convince the urban unemployed to move

²⁸Emphasis added; this statement was printed in B 15-06-88, but omitted in the B 17-06-88 version.

to rural areas, in order to meet the countryside's need for 8,000 additional workers.

On the subject of price policy, Ortega stated that "It did not help us not to recognize the real cost of production in this country, which deformed our economy." Henceforth, products with prices "below their real level" would become more expensive. In a passage which said much more than it appeared to, Ortega declared that

In some cases, we will protect prices, influence them; in other cases, the products will circulate freely. We will influence prices that are very sensitive for the country. That is to say, this is not a typically capitalist free market, rather, it is a free market in a revolutionary State, with a clear socialist orientation.

With this rather vague statement, Ortega had in fact announced "the liberation of all prices," as Barricada's June 15 summary of the speech put it. This could be deduced from Ortega's speech, in that the only examples he gave of "sensitive" prices that must be controlled and subsidized were transportation, education, health, and defence (sic)²⁹.

Throughout his speech, Ortega was concerned to present an ideological defence of the measures. He gave repeated indications that the leadership was under pressure to take a different course. At various points, he defended the government's decision not to abolish private property. While Cuba had done this, Ortega argued, "our situation is not that of Cuba, where a reality was imposed upon the United States, a reality that they cannot easily attack... as they do Nicaragua." But Nicaragua had not refrained from abolishing private property for merely "geopolitical" reasons, he said, but also because "we are living a stage of defence of revolutionary power."

As opposed to the radical course which some were apparently urging, the government was implementing measures that were "somewhat similar" to those that would be applied in any capitalist nation in crisis. Ortega noted that

The measures which we applied in February, sought to liberalize our economy and make it more flexible, and this may appear to be contrary to

²⁹Though there had been repeated declarations of the government's intent to eliminate subsidies on food, these had continually reappeared as the government sought to cushion the political effects of its adjustment policies. Even in March 1988 MIDINRA had announced that consumers would pay only C\$4.10 per pound of rice, though producers were receiving C\$6 per pound (B 09-03-88). Food subsidies finally disappeared in the wake of the June 1988 measures.

the class interests defended by this Revolution.

But, he insisted,

Our revolution has a socialist orientation. This is a definite fact. But we are not in the stage in which the application of some socialist measures will contribute to the principal objective, which is the defence of revolutionary power.

In an indication of the leadership's awareness of just how far economic policy had shifted, Ortega declared that "we are not applying International Monetary Fund policies, *in the strict sense of the word*" (emphasis added). Finally, to address concerns over the class orientation of the new measures, Ortega admitted that new incentives being offered to export producers might be "resented" by salaried workers,

who will ask how is it possible that we give producers incentives while the worker only receives appeals for consciousness and ideology. The truth is that there is no other way of stimulating the producer, who is motivated by economic incentives. Thus, there is a higher objective, to defend the workers' class power, which is a revolutionary power, based upon the revolutionary principles of Sandinism, which is unquestionably based upon Marxism, the ideology of the proletariat.

The new measures announced by various ministries clarified the meaning of various aspects of Ortega's speech. The Central Bank announced a 567% devaluation, from C\$12:\$1 to C\$80:\$1, and declared that henceforth the exchange rate would be devalued in accordance with movements of a modified consumer price index (B 15-06-88)³⁰.

The same modified CPI would be used to determine interest rates on most bank loans. For loans used to buy imported inputs, the producer would take on the "exchange rate risk." That is, such loans would be indexed to the *córdoba* cost of the dollar³¹. The banking system would provide loans to cover the full cost of such inputs, and would also cover the full costs of the harvest. Thus, the early 1988 policy of reducing the percentage of working costs being covered by the banking system was now to be applied only to some

³⁰For the purpose of devaluation, taxed products such as rum, cigarettes and soft drinks would be omitted from the CPI.

³¹So long as both the exchange rate and interest rates were pegged to the same CPI, this measure would be equivalent to the previous one.

pre-harvest costs. Government policy was shifting from rationing to something approximating market pricing of credit.

With respect to salaries, the SNOTS scale was adjusted upwards by just 30%. But the government announced that the scale would henceforth only be applied to government workers. For production workers, the SNOTS scale would serve only as a "non-obligatory reference." Similarly, the government announced that it would limit itself to publishing "reference prices" for some basic goods. The consumer protection law, it was announced, was "still in force," but "its regulations will no longer be applied" (B 17-06-88). The price of fuels was increased approximately ten-fold (López 1989, 81), and it was announced that public service tariffs would be adjusted periodically to maintain realistic relative prices.

Some sectors expressed delight at the new measures. COSEP head Enrique Bolaños welcomed the elimination of wage and price controls, while the Socialist Party's CGT union federation declared the limiting of SNOTS to government workers a victory for the working class (FBIS 16-06-88). The head of CONAPRO-HM, the FSLN's association of professionals, praised the government for moving away from an "egalitarian" approach to salary increases (FBIS 16-06-88).

Yet many FSLN supporters were troubled by the new economic policy. The monthly magazine Envío, which had traditionally sought to support every twist and turn of government policy, titled its article on the new measures "A package with the people left out"³². Many shared the view of Adolfo Acevedo Volg, who argued that the measures represented a seizure of control of government policy by "monetarists" (1989)³³. These

³²"Paquete sin pueblo" (Envío, August 1988).

³³Indeed, the official analysis of inflation at this time was heavily tinged by monetarist language. Ortega's speech on the June measures stressed the role of the "monetary mass" in increasing inflation, and SPP Minister Alejandro Martínez Cuenca held that "behind inflation lies a mass of money that is chasing scarce resources, scarce goods, scarce services" (JPRS-LAM-88, no. 29).

It can be argued that such language indicated less an adherence to "monetarism" than a recognition of the need to destroy the illusion of the printing press, the failure to recognize the costs to the economy of issuing money to meet the government's needs.

monetarists, Acevedo Volg argued, sought at all costs to eliminate inflation, held that inflation was primarily caused by the "monetary mass," and believed that it was necessary to create market conditions in order for production to recover, which would involve the collapse of "inefficient" economic agents.

Apart from these broad issues, the new measures sparked several technical concerns. It was argued that the price liberalization was based upon a fictitious view of the market, one that ignored the monopolistic nature of the industrial sector (Acevedo Volg 1989, 23)³⁴. The government would react to this problem later in the year, re-imposing controls on some industries.

The new credit policy was problematic in several respects. The banks apparently did not have the administrative capacity to handle the complex new interest rate system (Stahler-Sholk 1990, 74). Tying interest rates to a measure of inflation generated great uncertainty for producers, since they could have no assurance that the prices of their marketed produce would keep pace with the general price level³⁵. In addition, by linking both interest rates and the exchange rate to movements in the CPI, the government was

³⁴There are indications that the leadership was not entirely clear on the consequences of price liberalization. Just days after the new measures were announced, Ortega commented that

The product must be sold at its real cost. If it is worth 100 then it should be sold for 100, leaving no room for the speculator to move in and make a profit (B 17-06-88).

But it is only under ideal market conditions that market-clearing prices, those that "leave no room for the speculator," equal cost-plus prices, ones that represent the "real cost" of a product plus a reasonable profit margin. Ortega's comment, and many similar comments made in the following months, indicate that the leadership had not decided what to do about "excessive profits" when it decided to liberalize prices.

³⁵In Ryan (1987b, 23), I suggested resolving the problem of negative real interest rates by demonetizing the credit relationship. That is, the state would provide producers with the physical resources necessary for production, plus cash to meet such requirements as salaries, and would in turn receive payment in kind from producers, at a rate fixed before loans were contracted. Instead of indexing credit to a general price index, this would have effectively "indexed" the credit to the price of whatever product the producer marketed, and thus would have reduced producer uncertainty.

indexing the economy to a very frail statistical instrument³⁶. Whether for technical reasons, or because of concerns over the political implications of the new credit policy, the "inflation-proof" interest rates were not implemented until late in the year (ECLAC 1988, 448). At this point, the government was indicating that some sectors would be exempted from the new policy (FBIS 06-09-88). Producers affected by Hurricane Joan were also given exemptions.

A final technical criticism of the package concerned the usefulness of devaluing in June. Since prices paid for exportable products now depended on the exchange rate, the devaluation sharply increased the profitability of exports. But observers pointed out that the devaluation came two months late, as agro-export producers make their planting decisions in April (Pilarte 1988, 4; APEN 1989, 69).

Concerns within the revolutionary bloc over the new economic strategy would continue to be expressed in the coming months, and the "political and ideological cohesion" for which Ortega had pleaded in his June speech was not achieved. Even National Directorate member Henry Ruiz expressed concern, noting that the "adjustment program is a good idea but inefficient. That is, it has failed to hit the main targets." Ruiz added that "If the deterioration continues, the entire economy will be disrupted and the class struggle will worsen" (FBIS 05-10-88).

In September, the FSLN's official newspaper published perhaps its most critical editorial ever, titled "A counterpart to the economic logic is missing" (B 20-09-88). The editorial welcomed certain "encouraging signs" in the economy, such as

The recovery of managerial capacity within companies, the tendency to re-establish the relative price system, the stabilization of the black market for foreign exchange, and a better assignment and use of inputs and imported materials.

At the same time, however, there had been a failure to analyze the "social and ideological repercussions" of the economic measures. A "set of concepts has lost validity," concepts

³⁶In fact the Central Bank announced in August that interest rates would be pegged to the exchange rate, for credit used to purchase imported inputs, and to an index of producer prices, for all other credit (Stahler-Sholk 1990, 74).

that for years had been

slogans and guides for mass action. "Social control," "secure channels," "price controls," "state subsidies," "preferential prices for the peasantry," etc. are the banners of a vanished epoch...

All this was "necessary," the editorial accepted, but the failure to articulate a "new code" to accompany the economic adjustment "has created the impression that a vacuum exists." The "reproduction of Sandinista hegemony" required that people grasp the links between current economic policy and the revolution's "socialist orientation"³⁷.

The editorial noted that much emphasis had been placed on the restoration of "entrepreneurial capacity," but little on the equally "unavoidable need" for working sectors to "recover their bargaining power." The FSLN unions must emerge from their "immobilism" to address the challenges facing workers: "The unions must act like unions now, or they will cease to exist."

The editorial's counter-position of a successful "economic" logic with a problematic "social and ideological" logic indicated the fear of many FSLN activists that government policy had been hijacked by technocrats. Stung by this criticism, Daniel Ortega told a meeting of peasants not to "believe that technicians tell us what to do, as some theoreticians claim. That is not so. We do not analyze things from a technical viewpoint, we analyze them from a political viewpoint" (FBIS 06-09-88). Indeed, as the government's economic policy came to appear increasingly determined by "technical" criteria, Ortega became increasingly vigorous in his attacks on specialists and theoreticians³⁸.

One of the problems that provoked great concern in the wake of the June measures was the situation of wage workers. Many workers were now freed from the SNOTS scale, but they had been freed in a very difficult moment: industrial firms were suffering a

³⁷A phrase which the editorial put in quotation marks.

³⁸In his January 1989 speech on the economy (see below), Ortega criticized "brilliant analyses that offer no answer," and ridiculed "eminences graduated from U.S. or European universities" (1989b).

liquidity crunch, and generally faced a seriously weakened domestic market. The union head at a private soap company commented that employers, who had often claimed they would love to raise workers' salaries were it not for the SNOTS system, were now singing a quite different tune (B 19-09-88).

Those companies not in dire straits were able to offer their workers large salary increases, hence wide differentials emerged between those doing similar tasks for different companies³⁹. Those firms that increased salaries more quickly were often able to do so because of a monopoly situation in the market. The abolition of SNOTS for part of the workforce contributed to inflation in those cases where employers and workers were not in a truly oppositional relation⁴⁰. Thus, salary increases were linked to monopolistic price increases, not to productivity improvements, as the leadership had hoped would occur. This practice would lead President Ortega to criticize companies who were simply concerned to "get along with their workers" by raising prices and salaries. "We cannot accept," Ortega declared in January 1989, "groups of workers becoming privileged" (1989b).

It appears that those state companies in a position to do so engaged in price increases in much the same fashion as their private sector counterparts (APEN 1989, 69). Leaders lamented this behaviour on various occasions (FBIS 08-07-88; FBIS 06-09-88), but the new economic strategy left the government with little capacity to influence enterprise behaviour. In September, the Ministry of the Economy announced that it would "negotiate" with industries enjoying a monopolistic market position, in order to prevent "anarchic" price increases. Those industries targeted generally produced intermediate goods. Officials stressed that this decision did not affect the general policy of price liberation (B 22-09-88).

³⁹In an interview with Barricada, the union head at one company mentioned that skilled workers in his factory were earning C\$8,000 to C\$10,000 per month (B 19-09-88). In the same issue, another union head indicated that skilled workers at his company were earning C\$25,000 monthly.

⁴⁰See chapter seven.

In the countryside, extensive conflicts arose around the salary question. As in the industrial sector, the abolition of SNOTS did not come at a propitious moment for most workers. The abolition of subsidies on food in the June measures had increased workers' subsistence costs, but many employers, faced with tighter and more expensive credit, were unwilling to meet workers' demands, or even to negotiate wages (Pérez and Somarriba 1989, 15; Stahler-Sholk 1990, 75).

Conflicts were particularly intense in the cotton sector. The tripartite National Cotton Commission⁴¹ established a standard for incentives that would allow cotton pickers to purchase a basket of eight basic products. After various employers refused to abide by the agreement, the Ministry of Labour stepped in and set salary and bonus minima (López 1989, 82). The Association of Rural Workers, however, charged that many private cotton growers, particularly those associated with COSEP, were refusing to obey the Ministry of Labour order (B 14-09-88; B 19-09-88).

Those whose salaries were still set by the SNOTS scale saw their real incomes continue to deteriorate. From July to November, nominal salaries were increased 477% (López 1989, 82), while the CPI rose 1,017%. For 1988 as a whole, observers estimate a drop of real salaries in the neighbourhood of 85% (Acevedo Volg 1989, 27; *Análisis*, January 1990, 26).

Shortly after the introduction of the June measures, the government announced its "AFA" programme⁴², under which those workers still under the SNOTS scale would each month receive ten pounds each of beans and rice, and five pounds of sugar. The package would cost 5% of the monthly salary for lower-paid workers, and 10% for those at the higher end of the SNOTS scale. The AFA programme was also open to permanent personnel of the Ministries of Defence and the Interior, and covered some 160,000 workers in all (B 12-07-88; END 12-07-88; FBIS 08-07-88). Thus, even at a time when

⁴¹On the formation of the tripartite commissions, see below.

⁴²"Arroz, frijol, azúcar": "Rice, beans, sugar."

the market was being given greater sway over most aspects of economic life, the government preferred to rely on a "secure channel" strategy rather than nominal salary increases to address the concerns of government workers⁴³.

While concerns over the earnings of salaried workers had previously focused upon the gap between these earnings and those of the informal sector, many observers now pointed to a deterioration of living conditions of popular sectors in general. The June measures had not hurt salaried workers only: the freeing of markets, combined with a drop in demand, squeezed much of the informal sector, deepening the crisis for families who had hitherto survived on the basis of their combined earnings from formal and informal employment⁴⁴.

Concerns over the direction of policy were not allayed by the general economic results for 1988. As noted above, GDP dropped sharply. Reflecting in part the triage operation intimated in Ortega's June speech on the economy, manufacturing value added had dropped by approximately 26% (ECLAC 1988). The industrial collapse primarily affected small and medium production (Stahler-Sholk 1990, 72).

The acceleration of the GDP's slide occurred without clear progress in the government's stabilization programme, thus undermining those who might argue that the economy was undergoing "short term pain for long term gain." The most dramatic indicator of the failure to stabilize the economy was the CPI. The CPI more than doubled in each of November and December, rising during the two month period at an annual rate of over 1,200,000% (sic).

Despite the hope that the fiscal deficit would be reduced to 8% of GDP, it in fact rose to over 25%, wiping out the slow progress that had been made in this area since 1985. One factor in this result was the failure of tax receipts to keep pace with inflation.

⁴³The "territorial network," however, through which ENABAS had supplied neighbourhoods with basic goods at official prices throughout the 1980s, was formally abolished in November 1988 (López 1989, 81).

⁴⁴Aburto (1988) provides an interesting case study of various informal sector agents who suffered a sharp drop in real earnings through 1988.

Observers also pointed out that the reform process itself hurt fiscal revenues: the lack of liquidity experienced by many agents made it impossible for them to pay all taxes owing, and sales of the tax products such as cigarettes and rum were hurt by the general economic downturn (Pilarte 1988, 7). These factors combined to reduce the tax burden from 25% to 17% of GDP (ECLAC 1988). On the expenditure side, hopes to reduce the ratio of government spending to GDP by ten to fifteen percentage points (B 04-04-88) were dashed, as in fact the ratio stayed relatively constant, at 43.5% (ECLAC 1988). This rigidity of government spending would be the prime target of the next round of new economic measures, announced in January 1989.

By year's end, implementation of other aspects of the 1988 adjustment packages was only partially underway. As noted, the indexing of credit to inflation was implemented only in the final two months of 1988. Monthly interest rates for loans to the agricultural sector stood at 50% at year's end (Arana 1990, 52), still negative in real terms when deflated by the CPI. With respect to exchange rate policy, the new *córdoba*, devalued to C\$80:\$1 in the June package, had undergone four further devaluations by year's end, and in late December stood at C\$920:\$1. Nevertheless, when deflated by the CPI, this represented a 120% revaluation in the *córdoba* in the second half of the year. While the parallel market rate was much closer to the unofficial rate than in previous years, there was still an average discrepancy of 34% in the July-December period.

Thus, it seemed at year's end that the policy shifts of 1988 had brought production to the point of collapse, without noticeably improving the economy's financial balance. This state of affairs promoted ongoing debate on economic strategy, a debate which appears to have influenced the National Directorate's own internal debate. One example of the critical tone of the debate was the Association of Economists' economic proposals for 1989 (APEN 1989)⁴⁵.

⁴⁵The fact that those concerned by government policy used the Association of Economists (APEN) as a vehicle for those concerns indicates the degree to which the FSLN was and was not open to debate on fundamental questions of economic strategy. APEN was a member of CONAPRO-HM, the FSLN's umbrella organization of professionals. One could thus suppose that many of those who participated in drafting the

APEN urged that the global stabilization policies being pursued by the government be tempered by sectoral policies designed to stimulate production, and by policies aimed at "reproducing the class alliance." The association criticized the "subordination of the general performance of the economy to financial objectives"⁴⁶, and warned that the "costs of recovery should be distributed in a rational and evenhanded manner." Most importantly, the APEN document called for a re-centralization of the economy. The economists argued that

Just as the emergency provoked by hurricane [Joan] led to an organized mobilization of all available resources and energies in pursuit of a single objective, so too in 1989, in the same organized way and with the same intensity, all political, institutional, and mass efforts, and all necessary resources, should be directed on one course: attaining the production targets set for each sector and sub-sector of production...

APEN went on to suggest the formation of national and regional Economic Emergency Councils to assure the fulfilment of production targets "with all means at their disposal."

Other critics also warned the FSLN leadership that economic policy was threatening the party's base of support. An early January El Nuevo Diario article called for "drastic controls on new prices" in order to put an end to "not only irrational but false profits." Such controls, the paper stated, were necessary in order to avoid "the further political erosion of the revolutionary government" (rpt. FBIS 07-02-89).

It appears that these warnings were being taken seriously by at least some members of the National Directorate. There were reports that the debate within the Directorate was revolving around two stark alternatives: either holding the course and "deepening" the 1988 measures by applying more drastic budget cuts, or implementing a "war economy"

APEN statement were FSLN militants or at least associated with the party. It seems therefore that they were allowed to express their concerns, on the condition that they use a relatively marginal medium such as APEN, which to my knowledge had no previous public participation in policy debates.

⁴⁶There were repeated complaints at this time that the government was placing too much emphasis upon restraining demand, and too little upon encouraging supply. Economy Minister Luis Carrión responded that

The government spent eight and a half years dealing only with supply. All our speeches, all our economic actions, were directed towards increasing national production (1989).

(NYT 01-02-89). On at least two occasions in 1989 Ortega indicated that the Directorate was in fact thinking in terms of these alternatives. In his January 30 speech on economic policy, Ortega commented that "if we are not able to make a qualitative leap under these difficult and complex conditions," then "we will definitely be obliged to implement a war economy." Ortega defined this as a situation of "total rationing and total intervention of the State in all production and in the distribution of all resources" (Ortega 1989b)⁴⁷. In a June speech to teachers, Ortega again presented the country's alternatives in these terms (see below).

It is not clear how seriously the National Directorate debated the possibility of implementing a war economy, nor which members advocated such a course. Nor is it clear whether the alternative was rejected primarily because of its political implications, or because the leadership doubted the state's capacity to manage such an undertaking. A key factor in the Directorate's debate was probably the belief that the FSLN's base of support was strong enough to absorb the political costs of the current economic policies. This belief, which would persist until the final hours of February 25, 1990, would strongly influence the FSLN's actions in several respects through 1989 (see below). In any event, the advocates of "staying the course" won the day, and on January 30 Ortega delivered another speech to the nation announcing new economic measures (Ortega 1989b).

Ortega began by noting the costs of the counterrevolutionary war. The war had not only hurt the economy, he said, but had "hurt the construction of the mixed economy" and "polarized class positions." He repeated the theme first sounded in February 1985, that the government had erred in trying to do too much for the people. The government was now forced to implement new budget cuts, because January inflation could reach as

⁴⁷One year earlier, Ortega had referred to a war economy as a situation in which "money disappears... it has no value, because only the merchandise moves, and people only work for a little food." He added that, in World War II Europe, "speculators were even executed. Those were extreme measures." (FBIS 04-01-88).

high as 200%, "and we cannot permit this to occur"⁴⁸.

To slow inflation, Ortega announced, the government would reduce the fiscal deficit to just 11% of government spending in 1989, down from over 50% in 1988⁴⁹. Since about half of the government budget was devoted to defence (FBIS 23-11-88), this goal could not be accomplished without sharp cuts to the ministries of defence and the interior, which had been relatively immune to budgetary restraint. The 1989 budget provided for a 40% cut in Interior Ministry spending, and 29% in that of the army (FBIS 03-01-89)⁵⁰.

In his January 30 speech, Ortega noted that the new measures would generate unemployment, but added that there was a great demand for workers in rural areas. The head of the SPP estimated that a "minimum" of 30,000 jobs would be lost, including 10,000 army officials and 13,000 employees of the Ministry of the Interior (FBIS 02-02-89).

Ortega's speech also reiterated the government's determination to "give to things their true value." The policy of price liberation would not be changed, and the government would limit itself to publishing "reference prices." With respect to the exchange rate, Ortega indicated that the parallel rate would be brought closer to that prevailing in the unofficial market, thus restoring to the parallel market the role that had originally been foreseen for it in 1985. The speech contained no changes in salary policy which, Ortega said, "will have to be determined on the fly."

The FSLN leadership was aware of the political implications of this latest round of measures. Earlier in the month, Ortega had promised that the government would not undertake "IMF-type measures" (FBIS 19-01-89), but in his January 30 speech Ortega

⁴⁸In fact the CPI rose "only" 91.8% in January, representing an annual rate of inflation of 247,000%.

⁴⁹The projected deficit would be just 5% of GDP (Arana 1990, 21).

⁵⁰Though the government did not announce it publicly, there were various reports that the budget of the Ministry of Education was cut by approximately 20% (FBIS 22-03-89; FBIS 22-03-89), and that the health budget was also sharply reduced (FBIS 08-12-88).

commented that the budget cuts were a "typically capitalist" measure. In a speech to the National Assembly a year later, Ortega would comment that the 1989 measures could not have been applied earlier, because of the need for subsidies to "save the Nicaraguan economy, which was seriously threatened by the U.S. sponsored war... We could not think of implementing a policy of unemployment and applying well-known IMF formulas." Ortega would add that he had originally opposed the January 1989 application of these "IMF formulas" as he found them "too harsh" (1990). Nevertheless, throughout 1989, the government would by and large hold to the adjustment policies, to a degree that was surprising given the imminence of elections. This again points to a belief that the party could absorb the costs and still win the 1990 elections.

In economic terms, the January measures signalled a willingness to aggravate the economic downturn as a necessary price for controlling inflation. Alejandro Martínez, Minister of the SPP, would later estimate that the adjustment policies had been responsible for a 4% to 6% drop in GDP in 1988, and a further 4% in 1989, but argued that in the absence of adjustment "the monetary and financial system would have collapsed, resulting in an incalculable decline in the GDP of as much as 20%" (FBIS 05-10-89). Another high SPP official noted that "it is impossible to control inflation and to revitalize the economy at the same time," hence "a partial economic recession will be unavoidable if prices are stabilized" (FBIS 22-03-89).

In exchange rate policy, the government managed a real devaluation through the year. While the *córdoba* had been revalued by 120% in real terms during the second half of 1988, by the second half of 1989 the "real" exchange rate had been returned roughly to its June 1988 level. The real devaluation brought the official rate closer to the unofficial-market rate than it had been at any time during the FSLN's decade in power. By September, the unofficial-market rate was just 15% higher than its official counterpart (Arana 1990, 51), a gap reduced from 476% at the end of 1988. The parallel market rate lagged behind the unofficial rate only in May. From June on, the parallel market rate was basically equal to or greater than that of the unofficial market.

This near-unification in the economy's exchange rates was generally achieved through a policy of frequent minor devaluations, with the exception of a 117% devaluation in the first days of the year, and a 110% devaluation, from C\$9,500:\$1 to C\$20,000:\$1, in mid-June (FBIS 13-06-89). The latter devaluation came after a period in which the gap between the official and unofficial exchange rates was allowed to widen, and devaluations were delayed for "political" reasons, as Daniel Ortega would later comment (1990). In general, the second trimester of the year was a period of great pressure on the government to soften its adjustment programme, pressure which affected credit policy, as shall be seen in a moment.

Thus, broadly speaking the government kept its promise to "give foreign exchange its true price," as Henry Ruiz put it (Stahler-Sholk 1990, 65). Along with eliminating the fragmentation of prices between the official and unofficial import spheres, which had marked the economy for nearly a decade, the near-unification of exchange rates delivered a verdict of sorts on much of the government's investment strategy. Many major projects, such as the Contingency Plan for basic grains production, were now shown to be extremely costly, when relevant prices were aligned with their international equivalents (Stahler-Sholk 1990, 75; Arana 1990, 28). Peasant production of such products as milk now appeared more efficient than the high-technology production promoted by MIDINRA on the Pacific Coast (Envío, April 1988).

One observer argued that liberalization of exchange rate policy indicated that

The original strategy of agro-exports and food security, in conjunction with structural transformations, appears to have been replaced by a more conventional focus on agro-exports on the basis of compressed labour costs and the consequent concentration of income, [though] taking as given the transformation of the agrarian structure undertaken up to this point (Vilas 1990a)⁵¹.

⁵¹One small indicator of this change in thinking: the director of a joint private-state poultry enterprise was quoted in early 1990 on the advantage that cheap labour gave Nicaragua in the area of poultry exports (R. Fonseca 1990). Such talk was heavily discouraged in the early years. In early 1981, government junta member Arturo Cruz had categorically ruled out the pursuit of foreign investment on the basis of "cheap labour" (FBIS 27-01-81).

The policy of allowing world prices to express themselves inside the Nicaraguan economy via a liberalized exchange rate was not applied in an entirely uniform manner, however. For reasons that are not clear, the government decided to pay cotton growers a subsidy of 1.7 million *córdobas* per hectare (FBIS 25-04-89). "We cannot abandon cotton production," Daniel Ortega argued, "just because current prices are less than those of the 50s or 60s" (FBIS 19-01-89).

While the government generally held firm on its exchange rate policy, it had more difficulty doing so in the area of credit policy. To address the complaints of producers over the uncertainty generated by floating interest rates, Daniel Ortega announced in late April a policy of fixing the rates for four months (FBIS 25-04-89). Since the rates were frozen at a moment when the rate of inflation was at its lowest level in several years⁵², real interest rates would turn highly negative when inflation intensified in June and July. A loan to a peasant producer, for example, would lose 42% of its real value during those two months, deflating by the CPI.

In general, interest rates on loans were negative throughout the year, when deflated by the CPI. Rates on deposits, however, were positive in real terms for most of the year. Particularly from July on, the government sought to keep interest rates on deposits higher than the rate of devaluations, in order to eliminate speculative holdings of dollars. The fact that interest rates were higher on deposits than on loans shows that some disaccumulation of the banking system was still occurring. Banking system losses were also incurred as the government

made important concessions in order to strengthen the *concertación* process, some of which put the [adjustment] programme at risk... such as forgiving debts or restructuring them under favourable conditions (R. Gutiérrez 1989)⁵³.

Basic grains producers in particular, most of them peasants, were forgiven part of their debts from the 1988-1989 agricultural cycle (Stahler-Sholk 1990, 77). Despite this

⁵²The CPI rose just 12.6% in April, the lowest rate since September 1987.

⁵³On the national *concertación*, or dialogue, see below.

softening of the government's credit policy, however, a broad change in orientation, from a "productionist" to a "financial" focus, had to a large extent been completed.

Salaries for those still on the SNOTS scale remained a contentious area of policy. When deflated by the CPI, these salaries improved in 1989, though the increase took place from such a depressed level that it did little to reduce tensions around the question⁵⁴. These tensions were manifested in a fashion that particularly worried the FSLN, when a partial teachers' strike broke out in late May (FBIS 26-05-89). Though the government claimed that few teachers had struck, the situation took a serious turn when ANDEN, the FSLN's teachers union, and even the Minister of Education "demanded" a salary increase for teachers (Ortega 1989d).

This state of affairs led Ortega to meet with hundreds of teachers in early June. Ortega's speech to the meeting is of interest as he provided a defence of the government's economic policy, a defence aimed at answering criticisms that extended far beyond the teachers' union (1989d). "We do not promote," he argued,

a society of rich people and poor people, because we are defending the people's power, the power of workers. However, in the economic sphere, we do defend and promote a mixed economy that generates economic differences in which there are rich people and poor people.

There were, Ortega insisted, only "two economic options to solve the economic problems Nicaragua is facing. The measures we are applying follow a liberal trend, an IMF trend." The other alternative would be "to implement a war economy... salaries would no longer exist; salaries would disappear, and everyone would receive a ration of whatever food is available at the time."

Just because the government was following an "IMF trend," however, did not mean that it shared the objectives of the IMF. In a striking departure from the leadership's traditional rhetoric, Ortega argued that economic policies were analogous to rifles, which

⁵⁴Thus, the December 1989 base salary of central government workers was 76% higher than the previous December, when deflated by the CPI. But December 1988 had been an exceptionally poor month, in which deflated salaries had dropped by more than half. Thus, despite the modest improvement in 1989, the December 1989 real salary was just 27% of the December 1987 level (*Análisis*, January 1990).

could be used either to oppress or to liberate the people. Economic policies were thus politically-neutral instruments⁵⁵.

Turning to the specific question of teachers, Ortega recognized that unrest among teachers is "logical and normal." The problem was not unrest, but the fact that ANDEN and the Minister of Education were making wage demands, and the Ministry of Labour also "fostered the expectation that a wage increase was possible." Instead, Ortega said, "we have to do political work with teachers so they understand the economic situation." Nevertheless, he did promise the teachers a modest salary increase in June, to compensate for May's inflation. In addition, Ortega promised some non-salary benefits, such as tokens for free public transit, and additional study materials and scholarships to study abroad for the children of teachers.

The teachers' strike may have been one of the factors leading the government temporarily to soften its market-oriented policies in June. After the 110% devaluation at the beginning of the month, the government ordered a temporary price freeze on nine basic products, in reaction to "indiscriminate price hikes" (FBIS 15-06-89). The water and electrical utilities were also ordered not to increase their tariffs in the wake of the devaluation (FBIS 14-06-89), and subsidies were announced for "fuel used by the people" (FBIS 13-06-89)⁵⁶. The government also renewed its appeals to public companies to restrain price increases. Public sector managers, argued Economy Minister Lufs Carrión, "cannot make the same kind of financial decisions as would a private businessman." Yet Carrión stressed that he was not seeking a return to the days when the government sought to restrain inflation by sacrificing the financial health of the public companies. Public companies must eventually pass on any "true cost increase entailed by devaluation," he argued, and could not sell below cost "for an indefinite time" (FBIS 20-06-89).

⁵⁵Ortega would return to this point. In a January 1990 speech to the National Assembly, he argued that "we have been using working tools. These working tools are dependent on who is holding the tools" (1990).

⁵⁶The subsidies covered butane gas, diesel, kerosene.

Despite concessions such as these, the government broadly held the line on its economic strategy, thus testing its base of support to an unprecedented degree. In accordance with the interpretation of ideology presented in earlier chapters the shift in economic strategy was accompanied by a re-interpretation of the fundamental direction of the Sandinista revolution, a re-interpretation which sought to remain within a broad Marxist framework. Not surprisingly, the leadership relied heavily on Marxian determinism, associated with Marxism's modernizing tendency, to understand and justify changes in strategy. Thus, Daniel Ortega commented that "Socialism cannot be imposed on the minds of an unprepared people. Such an imposition will be determined by society's degree of development" (1989a). In an interview with a Mexican journalist, he argued that

We do not have a large proletariat, and there is no industrial development. Our society is basically agrarian. This clearly means that the implementation of revolutionary and Sandinist theories as well as the interpretation and implementation of Marxism under our true conditions have to be based on facts... In Nicaragua, carrying out a revolution, being a Marxist, being a revolutionary means doing what we are doing now (1989c).

Similarly, the turn to the market was legitimated through Marxist theory. Asked whether the turn to the market "could have ideological implications," Tomás Borge replied that

The theory of scientific socialism has always overcome the idea of associating commercial relations only with capitalism, as if these were unknown to socialism. It is a question of employing them in a conscious way and preventing them from operating blindly (1989b)⁵⁷.

Finally, as the new economic strategy carried Nicaragua farther away from the vision of socialism that the leadership had held, one noticed attempts to find a new model for the country's future. Abandoning the leadership's traditional distance from social democracy, Daniel Ortega made a number of references to the Nordic countries as a model for Nicaragua. These countries, he argued, were small, yet promoted social justice and

⁵⁷Borge, like Ortega, argued the political neutrality of the market mechanism: "The key is knowing how to use these tools. Economic categories are used in terms of specific class interests."

stayed clear of military alliances (FBIS 11-05-89). Indeed, a Soviet magazine even cited Tomás Borge as appealing to the Nordic model (rpt. JPRS-UIA-89, no. 008).

In summary, though 1989 saw some flexibility in the application of the government's economic strategy, the consistency with which that strategy was applied is striking, particularly when compared to the stop-go adjustments of the 1985-1987 period. By year's end, this strategy was yielding some results. After the high inflation of June and July, which reflected in part June's 110% devaluation, the CPI increased in the August-December period at an annual rate of 439%. As this drop in the rate of price increases was achieved without suppressing inflation through price controls or an overvalued exchange rate, the government had reason to hope that inflation in 1990 could be further reduced. The government had also come close to attaining its targeted deficit reduction: the deficit was just 13% of government spending, down from 53% in 1988 (Análisis, January 1990).

The government showed every sign of continuing its adjustment strategy through 1990. The 1990 budget called for a further 44% reduction in spending, including a 49% cut for the Ministry of the Interior and the army (FBIS 06-02-90). A high Economy Ministry official promised that

no sharp turns in economic policy are foreseen for the coming year, only adjustments to consolidate the objectives laid out from February 1988 on. There will be some government resources to support the efforts of productive sectors, but to a large extent the possibility of survival will be determined by the capacity of producers and entrepreneurs to adapt to the new economic context, and by the results of their own managerial initiatives in achieving an efficient use of their resources and countering the recessive effects of the adjustment policy (Elizondo 1990, 22).

This statement indicates the mood among government decision-makers at year's end. Despite the drop in the GDP and consumption levels in the second half of the decade, some things were looking up. The economy was being stabilized, export levels were finally improving, the economy was slowly weaning itself from dependence upon CMEA aid...

And, most importantly, the FSLN was on the verge of winning another election, which would give it another six years to get the economic house back in order, and to try to give new meaning to the objectives of the Sandinista revolution.

C. Relations with the bourgeoisie

As was seen above, accompanying the government's "turn to the market" was a reduction in the size of the Nicaraguan state and a consequent redefinition of its role. A corollary of this strategy was the realization that economic recovery would in large part depend on the behaviour of private economic agents. In consequence, the FSLN made various attempts during the 1988-1989 period to mend some fences with the bourgeoisie. These attempts, however, were often interrupted by periods of conflict.

Shortly after the announcement of the February 1988 economic measures, Jaime Wheelock ordered an end to all land expropriations in the Departments of Boaco and Juigalpa (Pilarte et al. 1988, 22). In May, a MIDINRA Vice-Minister announced that there would be no more expropriations anywhere in the country (B 23-05-88)⁵⁸. Also in May, the government announced the formation of a National Cotton Commission, made up of state and private sector representatives, and one member of the Association of Rural Workers. The commission, which was a prototype for those to be developed in other agricultural sectors, was to examine the problems facing cotton production, and recommend policies to the government. In announcing the commission's creation, MIDINRA Vice-Minister Salvador Mayorga noted that state organization in the agricultural sector had been "very vertical and inflexible," and had paid little attention to the needs of bourgeois producers (B 23-05-88). The most successful of the tripartite commissions seems to be that formed in the cattle sector, which reached an agreement between the state and private producers in July 1988 on a broad series of measures aimed

⁵⁸In fact, some 28,000 hectares were expropriated in 1988. This figure was down 28% from the previous year, and represented just one-fifth of the amount of land expropriated in 1986 (Wheelock 1990, 118). The course of the agrarian reform in 1988 and 1989 will be discussed further, below.

at restoring the national beef herd (López 1989, 81).

In his announcement of the creation of the cotton commission, MIDINRA's Mayorga also noted that private producers had learned that "the effort of some sectors to use production as a political weapon had negative results for themselves" (B 23-05-88). It seemed that the FSLN was attaining its long-sought objective of channelling bourgeois demands in an economic direction.

Indeed, the bourgeoisie, or at least broad sectors of it, was coming to terms with the idea that they might have to coexist with the Sandinistas for quite some time yet. There were both external and internal reasons for this. Jaime Wheelock remarked in March that many producers with whom he had recently met were much less hostile than on previous occasions, and attributed the change to their awareness that Reagan had lost control of United States foreign policy, and hence the Sandinista revolution had become a permanent fact of life (B 11-03-88).

This shift in bourgeois attitudes was at least partly related to the increasing marginalization of the contra. Seeking to undercut United States Congressional support for the contra, the Nicaraguan government in mid-January abandoned its long-standing pledge never to negotiate directly with the contra. In early February, the United States Congress rejected a bill providing additional "lethal" aid for the contra. This rejection brought the contra to the negotiating table, and a cease-fire agreement was reached at Sapoá, Nicaragua, in late March. Though the terms of the agreement were never fully implemented, the contra were henceforth generally perceived as a spent force, though they were still valued by some opposition figures for their ability to maintain low-level harassment of the Sandinistas⁵⁹.

On the other hand, the bourgeoisie now had more space for civic political activity. In January, the government ended the state of emergency implemented in 1987, and

⁵⁹A leader of the Conservative Party would comment in 1989 that "I think that the Sandinistas are bound to do a better job with the contras in existence than without them" (NYT 30-03-89).

abolished the "Popular Anti-Somocista Tribunals". Some observers detected continued tensions within the National Directorate over the decision to allow more room to the civilian opposition, and over the decision to talk directly with the contra. The announcement on direct talks was followed closely by the arrest of several opposition leaders who had recently met with the contra leadership in Guatemala. Since the arrests occurred on the same day Daniel Ortega arrived in Costa Rica for a regional summit meeting to discuss implementation of the Esquipulas II accords, some opposition figures argued that Tomás Borge, who headed the Ministry of the Interior and controlled the police force, was seeking to embarrass Ortega and signal his displeasure with the political opening (NYT 17-01-88; NYT 21-01-88). Such speculation increased when FSLN demonstrators, allegedly following orders of National Directorate member Bayardo Arce, broke up an opposition meeting "without Mr. Ortega's knowledge" (NYT 24-01-88). Borge, for his part, dismissed reports of tensions within the Directorate as "dreams" of the opposition, and expressed his support for the government's political concessions, which were made, he said, "to revive peace and to allow the Sandinista project to live forever" (FBIS 26-01-88).

Relations with the opposition deteriorated in mid-1988, however. One factor in the change was the new package of economic policies announced in mid-June. The FSLN was well aware of the unpopularity of the measures, and was concerned that the opposition could gain great political capital. In a speech given two days after the measures were announced, Daniel Ortega warned that the opposition would "act demagogically" around the question of high prices and low salaries, and promised that

I will not tolerate or allow people who once criticized the revolution's actions to question our efforts now that we are adopting measures to defend the economy in times of great difficulty.

Ortega branded COSEP, La Prensa, and the right-wing parties "pro-Yankee fascists," and commented

They are rabble rousers who are never satisfied. The only way to satisfy them is to bury them once and for all... Peace is being offered to them... But if they do not take advantage of this opportunity and do not act accordingly, let them be sure that we will wipe

them out (FBIS 17-06-88; B 17-06-88).

In July, the government showed that these threats were more than mere rhetoric. On July 10, the police broke up an opposition rally and/or riot in Nandaime, near Managua, with "tear gas, rifle butts and truncheons" (NYT 11-07-88)⁶⁰. A Barricada editorial warned that the entire population could rise up "rebelliously and justly, to defend their power, democracy and legality" (B 11-07-88). Immediately after the events at Nandaime, the government expelled United States Ambassador Melton, claiming that he had masterminded a "Melton Plan" to destabilize the country. At the same time, an opposition leader was arrested for instigating violence at Nandaime, and both La Prensa and the Catholic radio station were temporarily closed for engaging in a "subversive campaign" (B 12-07-88)⁶¹. A week later, Tomás Borge warned that the FSLN was ready to respond to those who provoked it with "institutional violence" (FBIS 19-07-88).

Some observers expressed surprise that the government had reacted so strongly against the opposition, given that it seemed to have the political situation well in hand, with the contra in disarray and the civic opposition as divided as ever (NYT 18-07-88). The government, on the other hand, pointed to an alleged coordination of subversive actions: contra attacks had stepped up, and Ambassador Melton had participated in a COSEP meeting in Estelí which allegedly called for the overthrow of the government (B 12-07-88)⁶². The government's claim that a coordinated "Melton Plan" had sought to destabilize the country received confirmation from an unlikely source later in the year,

⁶⁰The New York Times stated that this was the first time the Sandinista government had ever used tear gas against civilians, a remarkable record in Latin America. In a later report, the Times' reporter in Nicaragua wrote that "Dozens of protesters were pulled off buses and beaten" by police at the rally (NYT 17-07-88). A communiqué issued by the Ministry of the Interior said that police had been forced to respond after ten of them had been injured by rocks thrown by the crowd. The Times' reporter agreed that the trouble had begun when demonstrators began pelting police with rocks (NYT 11-07-88).

⁶¹The Catholic radio station, long a rabid critic of the government, was sanctioned for reporting that there were "dozens of disappeared" persons after the Nandaime events, and that a "massacre" had taken place (B 12-07-88).

⁶²The New York Times reported only that COSEP had called for a "government of national salvation," a vague call made at various points in the past (NYT 10-07-88).

when the Speaker of the United States House of Representatives revealed that the CIA "had deliberately provoked opposition activities in Nicaragua in hopes of prompting an overreaction by Nicaragua's Sandinista Government" (NYT 21-09-88).

In the week after the Nandaime events, the government expropriated the San Antonio sugar mill, the nearly 3,000 hectares surrounding it, and its associated rum company, the largest remaining private concern in the country. The sugar complex, as opposition figures hastened to point out, had been the showpiece of Nicaragua's mixed economy: the apparently warm relations between the government and Alfredo Pellas, owner of the San Antonio mill, had often been offered as a sign of the "pragmatism" of the Sandinistas, and as proof that the bourgeoisie was not united in opposition to the revolution⁶³.

Relations had in fact never been as friendly as they appeared to many observers. Charges of decapitalization were raised against the company as early as 1981 (JPRS 78617). In his late 1984 letter to the National Directorate, Tomás Borge complained that the Pellas family was shipping machinery from the San Antonio mill out of the country (1984d). In late 1985, some workers at the mill charged that the managers were trying to disrupt the harvest (END 06-11-85). Such complaints became more frequent in 1987, when some workers called upon the state to "intervene" the company. They pointed out that the mill had produced only 60% of its targeted sugar output, and charged that managers "spend only two days a week at the mill, and spend the rest of the time in Managua or outside the country" (END 14-04-87). An El Nuevo Diario article on the "sordid history" of the San Antonio mill charged that executives there "have been enjoying

⁶³Sec, for example, Le Monde (03-04-81), and Austin and Ickis (1986, 783). The FSLN's relations with the Pellas family formed the basis of the IHCA's assertion that what was left of the large bourgeoisie had good relations with the government, while COSEP basically represented parts of the medium bourgeoisie only (Envío, June 1983). The Pellas family had founded Nicaragua's Banco de América in 1952, and had thus led one of the country's main economic groups during the Somoza era (Strachan 1976). A 1980 radio report commented that "During 45 years of death and destruction, there was only one man whose wealth could be compared to Somoza's money and investments. That man was Alfredo Pellas..." (JPRS 75278). In 1979, Humberto Ortega allegedly asked a member of the family to join the government junta (Christian 1985, 156).

long vacations in the U.S.," where they were involved in "obvious counterrevolutionary confabulations" (END 25-04-87)⁶⁴. After the 1987-1988 harvest, it was noted that the mill had again fallen well short of its production target, producing only half of a planned two million quintals of sugar (B 22-05-88).

The San Antonio concern was expropriated under the terms of the 1986 agrarian reform law. The justification officially adduced was the decline in production since 1979 and the deterioration of facilities (FBIS 14-07-88), phenomena which in truth characterized most economic concerns in the country. The expropriation was clearly prompted by political factors. In his 1988 May Day speech, Jaime Wheelock charged that most of the participants in a rightist May Day march in Chinandega, in north-west Nicaragua, were workers of the San Antonio mill paid to march against the government (B 02-05-88). In his announcement of the expropriation, Wheelock alluded to "outbreaks of indiscipline" among workers at the mill, most of whom belonged to the opposition's Confederation of Trade Union Unity (FBIS 14-07-88). Daniel Ortega claimed that the United States was using the San Antonio mill to distribute funds to the contra (FBIS 20-07-88)⁶⁵.

Whatever the reasons for the expropriation, it clearly hurt the government's *rapprochement* with the bourgeoisie. The government could argue that the action was consistent with long-standing warnings to the bourgeoisie not to use their economic power to seek to destabilize the revolution. Opposition leaders, on the other hand, pointed out that the action, coming after government promises that expropriations had ended, showed once again that the FSLN was not to be trusted.

Nevertheless, with the National Directorate's decision in early 1989 to continue the

⁶⁴The mill's administrator responded to the charge of inefficiency by arguing that the mill had received little more than a third of the foreign exchange it required for the year. He also noted that the mill's specialists were "frustrated because the quality of life has been standardized, and they do not enjoy the fringe benefits they did before" (B 21-04-87).

⁶⁵This is a rather improbable accusation, unless by "contra" Ortega meant the rightist opposition that had traditionally been tacitly allied with the armed contra.

economic adjustment strategy (see above), new overtures were made to the bourgeoisie. In his January 31 speech announcing new budget cuts, Daniel Ortega struck a conciliatory tone:

We are Sandinistas, we are Marxists, Marxist-Leninists, and whatever else one might wish to add. What we understand is that the application of the revolutionary project to the Nicaraguan reality must respect the characteristics of our society, and must be done in alliance with the fundamental forces of our society, and with all those social, economic, political and religious sectors that are willing to build a new Nicaragua... Those who have another type of thought, another ideology, can keep thinking and working on the basis of that ideology: those who think that capitalism is best for Nicaragua can keep thinking that way; even those who think that subordination to U.S. policy is best for Nicaragua can keep thinking and working on the basis of this.

Those holding different ideologies could join in a "national *concertación*," or national "coming together" to solve the country's problems and ensure peace. As an inducement to participate in the *concertación*, Ortega declared that

There is no reason to take an inch of land away from anyone. Enough land has already been distributed... We have enough land to give to peasants without land, without affecting one single producer among those who are interested in entering into a real process of National *Concertación*⁶⁶.

While criticizing agricultural producers who "have used the profits made during these years to buy farms in other Central American countries," Ortega said that the majority of producers "have reinvested, have made an effort along with the workers to increase production." This was true, he said, even of many producers affiliated with COSEP (Ortega 1989b).

Thus began a renewed campaign to improve relations with the bourgeoisie. The New York Times reported that "Sandinista leaders have declared that their top priority will be to revitalize the country's beleaguered private business sector" (NYT 02-02-89)⁶⁷. The head of the Chamber of Commerce, after meeting with Economy Minister Luís

⁶⁶Emphasis added. The New York Times article on the speech omitted this crucial qualifier (NYT 31-01-89), the importance of which would become clear in June (see below).

⁶⁷As part of the new campaign, the government reached a compensation agreement with the owners of the San Antonio sugar mill, and retroactively exempted the Pellas family's rum company from the expropriation (FBIS 02-02-89).

Carrión, noted that the latter had "emphasized the need to guarantee the space of the private sector and define the ways in which the Government can exercise economic influence." Carrión also spoke of a plan to "define or delimit the mixed economy" (B 31-01-89), for which the bourgeoisie had been asking for many years. In the coming months Carrión would undertake various *concertación* meetings with private sector groups (B1 11-03-89).

The National Directorate's Victor Tirado turned once again to the language of developmentalist Marxism to explain the policy of national *concertación*:

The groundwork for economic development has to be laid so science and technology can contribute to production regardless of the economic sectors that are participating.

Later on, Tirado said, when Nicaragua had reached the level of "the developed countries," Nicaraguans could "decide whether we want socialism, capitalism, or something else," because "socialism comes from wealth and development" (FBIS 06-02-89).

COSEP viewed these developments with concern. Ramiro Gurdíán, who at the time was head of both COSEP and the rightist Democratic Coordinator, criticized the government for meeting with producers on a "sectorial" basis. Gurdíán stated that the groups belonging to COSEP and the Democratic Coordinator would only participate in a national *concertación* if the contra was also invited to participate (FBIS 13-02-89).

The government did not look kindly upon COSEP's attempt to sabotage the *concertación* process. In his June 1989 meeting with teachers, Daniel Ortega referred to COSEP and other rightist forces:

we live with a scorpion on our shirt. We know that we have the scorpion on our shirt but [we] trust the people's strength, and if the scorpion turns violent we crush it (Ortega 1989d).

Later in the month, the government expropriated the farms of three coffee farmers affiliated with COSEP in Matagalpa. The government stated that the action was a response to the "confrontational and anarchic attitudes" of the three producers, who had "assumed attitudes that go against the efforts to achieve the unity necessary to confront the crisis in Nicaragua." The Vice-Minister of the Interior labelled one of the three a

"professional provocateur in the service of the C.I.A." (FBIS 23-06-89). Jaime Wheelock warned that other properties of those who plotted against the government would be seized (FBIS 28-06-89), and former COSEP head Enrique Bolaños claimed that he had a list of thirty-six farms that would be expropriated before the end of the year (FBIS 11-07-89).

Once again, the government was sending a nuanced, but not contradictory, message: a political opening existed, but it had limits; property rights would be respected, but they too had limits. However much economic and political policy had evolved, the government remained willing to act decisively against those who assumed too intransigent a position within the opposition.

This message appears to have been understood by many members of the bourgeoisie. Although COSEP's member organizations in the cotton and cattle sectors withdrew from their respective national commissions in response to the June expropriations (FBIS 23-06-89), many producers who had been affiliated with COSEP continued to participate in the *concertación* process (FBIS 18-07-89). This eclipsing of COSEP's influence would become more manifest in the electoral process, which brought about a significant re-alignment of bourgeois political representation.

D. The Agrarian Reform

As was noted above, land expropriations for agrarian reform purposes were by and large suspended during 1988-1989. Though statements to this effect were made in 1988, the shift in policy was made more explicit in early 1989. Following upon Daniel Ortega's January 31 speech, the government formally introduced before the National Assembly a law marking the end of land expropriation (FBIS 06-03-89). "[T]he Revolution has completed a cycle," declared Economy Minister Luís Carrión. Henceforth emphasis would be placed upon "the consolidation of the mixed economy," on the basis of existing property relations (Carrión 1989).

The peasantry's demand for land, however, had not conveniently disappeared in accordance with the shift in agrarian reform policy. In fact, the deterioration in the

situation of rural wage workers resulting from the economic adjustment strategy led to renewed demands for land. In his 1988 year-end speech, Daniel Ortega noted that 42,000 hectares had been distributed to over 3,000 families in 1988, and pledged that "We plan to maintain this agrarian reform policy" (FBIS 03-01-89). In his June 1989 speech to teachers, Ortega expressed concern that cotton-sector workers had begun seizing land. Ortega estimated that there were some 7,000 unemployed rural workers demanding land (1989d). In that same month, speaking to peasants in Masaya, Ortega promised that the government would continue giving land out to peasants, "until no peasant is without land in Nicaragua" (FBIS 08-06-89). Finally, during the election campaign, Ortega promised that a land bank would be formed to meet the needs of 25,000 peasant families (FBIS 15-12-89). Thus, it was clear that, though the agrarian reform had delivered land to some 100,000 families, Nicaragua's economic deterioration continued to generate new land pressures, as families sought a small parcel as part of their survival strategy.

It was not clear, however, where the land needed to continue the reform programme would come from. Throughout much of the decade, nationalized farms had been used as a pressure valve to meet land demands without increasing expropriations. But by the end of 1988, less than 12% of agricultural land remained in state hands, down by nearly half from the early 1980s (Wheelock 1990, 115). State farms had generally divested themselves of their miscellaneous small parcels, and Jaime Wheelock declared that state lands should not be further divided (FBIS 28-06-89)⁶⁸. In any case, further division of state lands would run counter to the emphasis being placed upon recovering export output.

A second possible source of land was constituted by the "enemies of the revolution" placed on notice by the June 1989 expropriations. But any extensive expropriations would undo the government's whole *concertación* policy. A third possibility was that virgin lands

⁶⁸Whatever the difficulties faced by the state farms, at least part of the National Directorate continued to believe that they represented "the most advanced form of production," as Luis Carrión put it (1989).

would be offered to peasants, marking a return to the pre-1979 "colonization" schemes. Daniel Ortega hinted at such a policy in the same speech in which he promised that no peasant would be left without land: Masaya peasants requiring land, he noted, might have to move to other parts of the country (FBIS 08-06-89). While such a strategy was theoretically feasible, the investments required for colonization projects would be hard to finance given the fiscal austerity policy, which had already involved sharp reductions in public investments.

One hope, first articulated in 1986-1987, was that peasant land demands could be met without distributing new lands by directing peasants to cooperatives needing new members. In his January 1989 speech on the economy, Daniel Ortega commented that

Enough land has already been distributed. It is true that there are peasants who are demanding land, but we have an answer for them, in cooperatives, cooperatives that own 500 to 1,000 *manzanas* and who have seen their membership reduced, so that they do not have the people necessary to work their land... (1989b).

But the production cooperatives, which had never been the peasantry's preferred land solution, were looking ever more unattractive. A member of one of UNAG's regional executive committees was cited as offering "harsh criticism" of the cooperatives in his region: apart from the problem of member desertion, the cooperatives were plagued with labour indiscipline and increasing alcoholism (JPRS-LAM-88-015). A Barricada analysis commented that

The low cultural level of the peasants with regards to the management and control of goods and production plans constitutes an obstacle to the qualitative development of cooperatives.

The article went on to cite cases of cooperatives that had received no technical assistance for over three months, that were unable even to fill out requests for bank credit, and that were unable to maintain their own machinery (B 11-04-88).

After the state "compression" was announced in early 1988, there was much talk of inducing fired workers to move to cooperatives, where they could occupy administrative posts and raise the "cultural level" of the cooperatives (B 21-03-88; B 23-03-88; B 11-04-88). Given the chasm between urban and rural living conditions, however, it was unlikely

that many would respond to this invitation, despite worsening living conditions in the cities. UNAG head Daniel Nuñez commented that "We have never believed that professionals, accountants or secretaries will go *en masse* to the country." At best, he noted, the move to the country was an option for those who had moved into the cities relatively recently (BI 02-89). Such persons, however, were unlikely to possess the special skills thought lacking in the cooperatives.

Hence, just as the state sector had shrunk throughout the 1980s, the future held the prospect of a collapse of the cooperative sector. The Sandinista agrarian reform had transformed the face of the Nicaraguan countryside, and was viewed as one of the revolution's fundamental achievements, one that would be defended at all costs. But the transformation little resembled that which the FSLN leadership had originally envisioned. After an initial push to the "higher" forms of production, the countryside had been in the grip of a seemingly inexorable "historic regression" to "lower" forms of production, lower forms that seemed to answer some of the deepest aspirations of hundreds of thousands of Nicaraguans.

E. The Final Act: The 1990 election

At a meeting in El Salvador in mid-February 1989, the Central American Presidents reached another accord on implementation of the regional peace process. Nicaragua agreed to move the 1990 election, scheduled for November, up to February 25. The Nicaraguan government also promised that 1,700 jailed former National Guardsmen would be released "almost immediately." Honduras, for its part, promised to close contra bases in its country (NYT 15-02-89)⁶⁹. Daniel Ortega promised to hand over the reins of government within three months, should the FSLN be defeated (FBIS 21-02-89), thus

⁶⁹Of the three key provisions of the pact, two were fulfilled: the Nicaraguan government released 1,900 guardsmen in March (NYT 17-03-89), and held elections on schedule. Honduras, however, bowed to United States pressure and announced, just one month after the El Salvador accords, that it would not expel the contra (NYT 14-03-89; NYT 23-03-89).

putting an end to the FSLN's traditional ambiguity on the meaning of elections, an ambiguity that had been maintained even after the 1987 signing of the Esquipulas Accord⁷⁰.

The El Salvador agreement caught the political organizations of the bourgeoisie by surprise. The New York Times commented that "opposition politicians have been forced to seek a quick consensus" (NYT 30-03-89). Among the welter of opposition parties and organizations⁷¹, one can identify at least four broad tendencies. The first might be called the "moderate" opposition parties: those that had participated fully in the 1984 elections, and had consistently been willing to distance themselves from the contra⁷². The second tendency was made up of "hard-line" domestic opposition groups, who had boycotted the

⁷⁰In October 1987 La Prensa cited an Agence France-Press story to the effect that Daniel Ortega had declared in New York the FSLN's willingness to give up power if it lost the 1990 elections (LP 07-10-87). [In its typical fashion, La Prensa ran a banner headline declaring "Ortega talks of handing over power to the opposition," with a minuscule sub-head reading "If he loses elections in 1990."] In December, however, Ortega declared that "In the hypothetical case that we should lose elections, we would hand over the government, but not power," just as, he argued, the "capitalist class [in Chile] never gave power to Allende, only the government." "All Latin American governments," Ortega went on, "must very much take into account the armed forces as part of the power reality that exists in each country" (B 14-12-87). Ortega's remarks led Costa Rican President Arias to comment that "Whoever affirms that he is willing to hand over the government, but not power, is betraying the letter and the spirit of the Accords" (LP 19-12-87).

In January 1988, the New York Times reported that Ortega had written a letter to Reagan promising to give up power if he lost the elections. On the same day the letter was made public, however, Bayardo Arce told a Managua rally that the FSLN would never give up power, because it could not "usurp the right of the people" (NYT 25-01-88).

After the 1989 El Salvador accords, however, there was no hint from the FSLN leadership that executive and legislative power was not at stake in the upcoming elections. Tomás Borge commented in June that "there will be no alternative to accepting the results" should the FSLN lose. The only alternative, he said, would be a military coup, which would inevitably lead to a United States invasion (FBIS 01-06-89). [This analysis was offered before the invasion of Panama.] In any case, Borge added, the FSLN "cannot conceive of the possibility of defeat."

⁷¹There were thought to be some twenty-five opposition parties and "splinter groups of parties" in existence in early 1989 (BI 25-03-89).

⁷²Most notable in this tendency were the Popular Social Christian Party, and factions of the Conservative and Independent Liberal parties.

1984 election campaign and continually flirted with the contra⁷³. The civilian leadership of the contra forces that had operated out of Honduras represented a third tendency. This group had maintained the closest links with the United States administration, which was now encouraging contra leaders to return to Nicaragua from their Miami combat centre, in order to participate in the elections⁷⁴. A final tendency, small yet influential, was comprised of the civilian associates of the contra forces that had operated out of Costa Rica, under the occasional leadership of Edén Pastora. This group was generally believed to have maintained more distance from the United States government⁷⁵.

Apart from the struggles for personal influence that had traditionally characterized the opposition, conflicts reflected bourgeois divisions on the degree to which the FSLN and the changes it had wrought had to be accepted as a fact of life in Nicaragua. The opposition's eventual campaign platform would manifest this tension⁷⁶.

Ironically, in early 1989 the FSLN was calling upon the opposition to unite, so that it might become a coherent interlocutor in the process of national *concertación*, one that might serve to legitimate that process. Bayardo Arce commented that "a union of

⁷³Key elements in this tendency were COSEP, *La Prensa*, and various rightist parties and fractions thereof. This group would be represented on the eventual opposition ticket by Virgilio Godoy, who had run for President in the 1984 election, only to withdraw at the last minute, after the ballots had been printed.

⁷⁴As an added inducement to return, the United States government halved the living stipends of contra leaders in Miami in March, and in July eliminated funding for the contras' Miami office altogether (NYT 29-03-89; NYT 17-07-89).

⁷⁵The central representative of this tendency was Alfredo César, who had participated in the drafting of the 1979 junta's Programme of Government, and had served as Central Bank head before abandoning the government in 1982. In November 1989, Violeta Chamorro appointed César her main campaign advisor, just days after the opposition coalition (UNO) had thrown him off its campaign committee (FBIS 24-11-89). After UNO's electoral victory, César would lead the "centrist," or "pro-Chamorro" wing of UNO in the National Assembly. In 1991, he would shift to the right.

⁷⁶Thus, the UNO programme promised to respect the property of peasants, including that which had been granted through the agrarian reform. But it also held that all land expropriations since 1979 would be subject to review, with the exception of the land expropriated from the Somozas by Decree 3.

conservatives, liberals, and others would be favourable" (FBIS 03-01-89)⁷⁷. A Barricada article called on the opposition to "get their act together"⁷⁸. Thus, in its certainty of being re-elected, the FSLN was neglecting the key condition for its continued hold on power: that the opposition remain divided.

But the opposition was driven to unite by a factor much more potent than the pleas of the FSLN: dollars. In April, the United States Congress' National Endowment for Democracy announced that it would spend \$2 million on the opposition political campaign. In an excess of honesty, an Endowment official stated that "The whole thrust of this program is to help the opposition coalesce and overcome their historical differences and develop a national political structure" (NYT 25-04-89). By most accounts, United States influence was crucial in the formation of the National Opposition Union (UNO) in early June⁷⁹.

Tensions persisted in the opposition coalition, however. Various parties, complaining of the "extremist" elements within UNO, discussed the possibility of forming a centrist alliance. One of the concerns of this group was the attempt by returning contra leaders to displace local politicians (FBIS 01-06-89; FBIS 17-07-89)⁸⁰.

⁷⁷The opposition, Arce generously admitted, played an important role, allowing the FSLN to know "the opinion of the bourgeoisie, the petite bourgeoisie, etc."

⁷⁸Soffa Montenegro, a Barricada editor, wrote:

Why don't they follow the example of the government ministries and consolidate themselves as a first big step in the struggle against the disorder and chaos prevailing among their ranks? [This would be] proof of the opposition's political willingness to seek a way out of the problems that are besieging us and giv[e] them back a certain credibility, even with the government (BI 25-03-89).

⁷⁹In total, the United States was to commit some \$17.5 million to UNO. It was reported in October that "So far this year Washington has given opposition groups \$3.5 million in overt aid, and intelligence sources say the CIA has covertly provided \$5 million for opposition 'housekeeping' costs" (Newsweek 09-10-89). Later in October, the United States Congress agreed to send an additional \$9 million (NYT 18-10-89).

⁸⁰Eventually, the two Social Christian parties (PSC and PPSC) would leave UNO and form an alliance. Despite the active support of Edén Pastora, who returned to Nicaragua in December, the Social Christians won a negligible portion of the vote (FBIS 29-09-89; NYT 04-12-89).

Further tensions were generated around the selection of an opposition ticket. At least six parties supported the nomination of former COSEP head Enrique Bolaños (FBIS 30-08-89). Other opposition parties felt that Bolaños, as a member of the traditional landed elite, would be a weak candidate (NYT 19-08-89). There was thus recognition of the degree to which class awareness had developed in Nicaragua during the 1980s, and of the consequent need to find a candidate who could appear to transcend class divisions. A consensus also developed within UNO that the presidential candidate must be someone who had opposed the Somoza regime (Ibid.).

In September, UNO chose Violeta Chamorro and Virgilio Godoy as its presidential and vice-presidential candidates, respectively. The selection of Chamorro, the widow of La Prensa editor Pedro Joaquín Chamorro, murdered in early 1978, was welcomed by "American officials," who felt she "would unify the opposition" (NYT 04-09-89). One of Chamorro's assets was thought to be her lack of involvement in any particular political party.

The selection of Godoy was more controversial, however. Various parties threatened to withdraw from UNO: some opposed Godoy for his participation in the FSLN government from 1979 to 1984, others were concerned by the extremism of his opposition since that time. The United States embassy was reported to be working hard to maintain UNO unity (FBIS 11-09-89), but COSEP, frustrated by UNO's rejection of Bolaños, maintained its opposition to Godoy⁸¹. That opposition had little impact, however, manifesting what one observer termed the "sharp loss in political influence" of COSEP (NYT 10-09-89).

Tensions would persist within UNO throughout the campaign, and would work to undermine the Chamorro government. Godoy spoke disparagingly of his running mate, saying she would help "draw the women's vote" and that of peasants. Chamorro's

⁸¹Former COSEP head Bolaños claimed that UNO had rejected him as its presidential candidate because it had been infiltrated by the FSLN. "Within UNO," Bolaños claimed, "there are people who are opposition during the day and then at night they sleep with the Sandinista Front" (FBIS 25-09-89).

speeches, Godoy added, "are not very sophisticated" (FBIS 19-09-89). When disagreements flared up within UNO over its slate of candidates for the National Assembly, Godoy threatened a repeat of his 1984 last-minute withdrawal from the election (FBIS 29-09-89). In January, it was reported that Chamorro's advisors had stopped the flow of campaign funds to Godoy (FBIS 22-01-90). Late in the campaign, the top advisors of Chamorro and Godoy engaged in a "boxing match" on the podium at a UNO rally (FBIS 08-02-90).

Chamorro's presidential campaign was strong on symbolism, and avoided emphasizing UNO's contradictory programme. She never failed to invoke the name of her slain husband. She asserted that she was "in God's hands" (FBIS 22-09-89), and referred vaguely to occasional conversations with God and her husband (Newsweek 09-10-89). Her criticisms of the Sandinistas were fairly broad: she promised to end "half a century of dictatorships and totalitarianism" (FBIS 05-09-89) and pledged to end the military draft (FBIS 20-02-90). Surprisingly, in light of the state of the economy, Chamorro's speeches did not stress economic problems, though she did promise to improve real wages (Ibid.).

Chamorro's greatest political asset may have been her image as a healer or reconciler of the nation. Her candidacy promised an end to conflict with the United States, and she pledged not to be vindictive against the FSLN and its supporters. Chamorro promised, for example, that "All of those [government workers] who do their duties professionally and with a sense of responsibility will stay in their jobs," and that army officials affected by cuts in the military budget would be provided with alternative employment (Ibid.).

The FSLN, for its part, repeatedly sought to identify UNO with the contra and with Somoza's National Guard. The election, Daniel Ortega declared, was a choice "between the revolution and the counter-revolution, between Somozism and Sandinism" (FBIS 20-07-89). The opposition were "mercenaries without weapons," he commented (FBIS 09-11-89). Ortega would lead crowds at FSLN election rallies in chants of "Guardia Nacional-UNO" (FBIS 09-02-90).

The FSLN's official campaign slogan was "Everything will be better." Asked at a press conference to explain the slogan, Ortega explained that "everything will be better," because a flow of international aid would enter the country after elections (FBIS 28-09-89). Observers stressed the increasingly populist tone of Ortega's campaign.

On at least two occasions there were concerns that the FSLN might suspend the election campaign. The first was in late October, when the government announced the resumption of military action against the contra, ending the government's nineteen month unilateral cease-fire (NYT 28-10-89). The second occasion came at year's end, when the United States invaded Panama. The government declared a state of "maximum military alert," leading to opposition complaints that the Sandinistas were creating an artificial war atmosphere⁸².

But the FSLN saw no reason to suspend the election, as it was convinced that it would win by a wide margin⁸³. FSLN leaders repeatedly declared that an opposition victory was inconceivable, and there has never been any suggestion that in making these statements the Sandinistas were whistling in the dark⁸⁴. Late in the campaign, Ortega mused that UNO might not even win second place (FBIS 15-02-90).

On February 21, the anniversary of Sandino's 1934 assassination, the FSLN held its final campaign rally. The New York Times commented that the crowd may have been Nicaragua's largest ever (NYT 22-02-90), a remarkable statement given that the Sandinistas had often organized rallies attended by close to half a million people. "On 25 February," Ortega told the crowd, "we must crush Somoism. We must crush the contras. We must crush treason" (FBIS 22-02-90). Gazing out on the crowd, Ortega, for thirty years a political activist, seven years a political prisoner, ten years a head of state,

⁸²In the wake of the invasion, the Defence Ministry issued a bulletin promising to "carry out plans for the neutralization, trial and execution of all the most recalcitrant, traitorous elements that openly or covertly have incited the Yankee intervention," in the event of a United States invasion of Nicaragua (NYT 28-12-89).

⁸³Indeed, reliable polls confirmed the FSLN in this expectation.

⁸⁴See, e.g., FBIS 02-05-89; FBIS 04-05-89; FBIS 28-09-89; Ramírez (1991).

declared "We have already won the election."

F. Conclusion

In explaining the course of events, it is hard to know what weight to attribute to simple error. The Sandinistas erred gravely in their estimation of Nicaragua's political mood. The rigor with which they pursued economic adjustment throughout 1989; their willingness to allow the opposition more political space; their willingness to move the date of national elections up, without any commitment from the United States government that it would respect a Sandinista victory: all these speak to the confidence with which the Sandinistas viewed their political position. They marched happily to the revolution's funeral, convinced that they were celebrating a renewal of what Tomás Borge had once called "the perpetual wedding vows between the Nicaraguan people and the Sandinista Front" (1984a, 164).

Yet this error was not accidental, it was the product of the FSLN's long-standing vanguardism. The FSLN could not lose the election because it was the very embodiment of the Nicaraguan people and its deepest aspirations. In a revealing comment, Daniel Ortega argued that it was not possible for the opposition to win elections, because "I trust in the political maturity of the Nicaraguan people" (FBIS 04-05-89). After a decade of Sandinista guidance, the Nicaraguan people had begun the long climb to the level of political consciousness of its vanguard.

It became a common-place after the election to criticize the FSLN for having "lost contact" with the people. As one official told me, "The fact that we could not imagine losing is the best proof that we deserved to lose"⁸⁵. But it is more precise to say that the FSLN lost contact with the people because its perceptions of the contact it did have were mediated by the certainty that it was the only legitimate representative of the people.

⁸⁵The National Directorate's report to the FSLN party congress in 1991 admitted that "our ability to communicate with important sectors of the population declined over the years" (Dirección Nacional 1991).

All of this may be read as a blanket condemnation of vanguardism, and such condemnations are certainly *de rigueur* at the moment. But if one blames vanguardism for the Sandinistas' loss of power, must one also recognize its contribution to their having seized power in the first place, and to their ability to have weathered a decade of remarkable challenges? Without the sense of self-confidence and certainty in their historical mission which their very vanguardism gave them, would the Sandinistas have held power for a single day? It is an expression of the maddening dialectic of history that the *élan* which sustained the FSLN through its grim years in the wilderness, which helped bring it to power and consolidate that power against great odds, which captivated so many of us and generated a loyalty that mere political logic could not explain, also played a large part in the loss of power in 1990.

Chapter 9: Reflections on the Sandinista Decade

Max Weber ends his Protestant Ethic by insisting that "it is, of course, not my aim to substitute for a one-sided materialistic an equally one-sided spiritualistic causal explanation of culture and of history" (1958b, 183). At another point in the same work, Weber stressed that

we have no intention of maintaining such a foolish and doctrinaire thesis as that the spirit of capitalism... could only have arisen as the result of certain effects of the Reformation, or even that capitalism as an economic system is a creation of the Reformation (Ibid., 91).

To this last remark, Weber appended a plaintive footnote: "In spite of this and the following remarks, which in my opinion are clear enough, and have never been changed, I have again and again been accused of this" (Ibid., 217).

Despite this insistence, Weber's work came to be interpreted as the "response" of idealism to Marxian materialism. This misinterpretation is an interesting case study of the interaction of ideas and ideologies. Despite Weber's pleas, his work was pressed into the service of Western academia's defence against Marxism. The perceived need for ideological instruments to combat Marxism was so great that it is not surprising that Weber's academic "disciples" ignored the nuances of his thought.

If even as lucid and influential a writer as Weber did not have complete control over the interpretation of his work, how can a poor graduate student hope to fare better? At a historical moment when state socialism is on the verge of extinction, when Western media and some academics celebrate the "New World Order," the "End of History," and the "Magic of the Market," it is perhaps inevitable that a study such as mine should be interpreted by some as yet another (superfluous) nail in the socialist coffin. Let me say once again, therefore, that I write as a socialist concerned for the future of socialism, a socialist who believes that we must come to terms both with the crisis of one model of socialism in the twentieth century, and with contradictions in the original Marxian socialist vision. This thesis is intended as a modest contribution towards that project.

Thus, the examination throughout this thesis of the difficulties of an anti-market and anti-capitalist development path should not be read as an endorsement of Third World capitalism. Though the Sandinista path failed, market-oriented regimes in Latin America did not fare very well through the 1980s either. The failure of the Sandinista model does not imply that market-centred development paths offer much hope to the millions of impoverished Latin Americans.

Let us recapitulate the main lines of argument of this thesis. I have argued that the Sandinistas sought to do much more than merely take and hold state power. They gained state power as part of a broad project of social transformation. Contrary to much writing on the Sandinistas, this project had much in common, *mutatis mutandis*, with state socialist systems elsewhere. These common elements are not surprising in light of the relatively orthodox Marxism shared by the Sandinista leadership.

I have also argued that the Sandinista project of social transformation contributed to the severe economic and social crisis which began in the mid-1980s. In particular, there was an interaction between domestic policy and United States pressure: the former made the country more vulnerable, both economically and politically, to the latter. Thus, for example, Sandinista statism led to policies that alienated enough peasants to give the United States the human resources it needed to wage its war. In addition, the "productionist" bias of policy and the intensity of the state investment process stretched the government budget to the breaking point, which increased the de-stabilizing effects of the increased defence spending needed to face the external threat.

Finally, I have argued that, despite attempts to change course, the Sandinistas never escaped constraints that developed in part from their early policy choices. These early policy choices had generated both political and economic constraints. Thus, for example, changes in price policy, which had been a means for increasing the popular legitimacy of the Sandinista project, eroded support in poor urban neighbourhoods at a time when the military service already represented a tough demand on people. At an economic level, attempts to close the gaps between official and unofficial prices, or to

increase real salaries and achieve a real devaluation, triggered a hyper-inflationary "adjustment spiral."

A. Results of the analytical framework

What is the value of the approach to the Sandinista decade offered in this thesis? Why relate the Sandinista experience to catch-up socialism? In exploring the difficulties of that path, are we not beating a horse that is already quite dead?

My working assumption is that Latin America, like much of the world, is not in a state of stable equilibrium. That is, current social and economic systems are probably not sustainable. If this assumption is valid, then the search for alternatives to Third World market systems will not die, whatever the fate of socialism in the 1980s. This makes it essential to study the experiences of previous alternatives to market development.

Thus, by stressing the links between Sandinista ideology and orthodox Marxism, by stressing the relation between many of their early policy choices and the catch-up socialist model, I have sought to show that the Sandinista decade was not an isolated idiosyncratic experience of no broad relevance.

I believe that the framework chosen has also been useful in three general areas, which will be examined briefly here: (i) the relation between ideology and policy choices; (ii) the nature of catch-up socialism and the relation of Sandinista policy to this; (iii) the dilemmas and challenges faced by the Sandinistas.

1. Ideology and policy

First, the thesis has explored the interrelation of Sandinista ideology and policy choices. Thus, we examined the manner in which the leaders' ideological outlook influenced their perceptions of the countryside (chapter three). We also suggested the links between their ideological commitments and their initial policy choices, such as the preference for state farms, the statization of many key points in the economy, the attempt to limit the operation of the market mechanism, and the project of limiting the political

projection of the bourgeoisie and channelling it in an "economistic" direction. A sense of the Sandinistas' ideological outlook helps clarify the rationality of these policy choices and their underlying unity.

One should not exaggerate the causal status being attributed to ideology here. I am not arguing that the Sandinistas came to power ready to implement a Marxist project "at any cost." They always displayed a clear sense that politics is a mediation between the desirable and the possible. Had they not had this sense, it is unlikely that they ever could have taken power in the first place. But to understand the concrete results of this mediation, one must examine its two "poles," the possible and the desirable. That is, while it is important to examine the constraints faced by the Sandinistas, constraints exist only in relation to objectives¹; had the Sandinistas sought merely to hold power, they would have met a very different set of constraints than they in fact faced.

Nor does the emphasis on ideology conflict with certain insights of "incrementalism," in particular with the view that "ad hoc-ery" plays a great role in state decision-making. The thesis does not presume that policy decisions emerge smoothly from pre-established interests, forged on the basis of ideology. Nor does it assume that, in the mediation between the possible and the desirable, the latter is given once and for all. The consideration of ideology is quite compatible with the view that interests evolve in the course of action. But in the complex interaction between hopes, constraints, actions, reactions, reformulation of hopes, and so on, ideology has its role to play.

The long-term impact of the Sandinistas' initial ideological commitments is best appreciated by bearing in mind the concept of trajectory. Thus, I have argued that, however much the Sandinista leadership might have undergone an ideological evolution once in power, such an evolution is always a movement from "somewhere" to "somewhere else." To say that the leadership is "flexible" does not mean that its initial outlook is somehow annihilated in the process of evolution. The weight of the starting point in this

¹Sec Giddens (1984, 174).

evolution is magnified when one considers that the leaders must to some extent carry the rest of the party with them as they evolve².

But the concept of trajectory is important in another sense. The influence of orthodox Marxism, and of the catch-up socialist model associated with it, is seen most clearly in the initial period of Sandinista power. But this period will "weigh like a nightmare" on subsequent periods. The economic imbalances first sparked in this period were never overcome; nor were the confrontational relations with the organized bourgeoisie established at this time. Nor did the Sandinistas ever free themselves from the effects of the instruments of legitimacy wielded in this period -- price controls, the rapid expansion of social services, etc. Thus, even had the Sandinistas undergone a total ideological conversion in the mid-1980s, they would still have had to contend with the effects of early policy choices that were related to their initial ideological outlook.

This stress on trajectories is in no way deterministic: the constraints presented by the earlier moments of a trajectory are not absolute. But they are real, and they must be taken into account: to the extent possible, leaders must be aware that the decisions they make in the early days of revolutionary power are establishing a path, and reflect upon the possible limits of that path.

2. Catch-up socialism and initial policy

A second general area in which the framework has been useful concerns the nature of catch-up socialism and its relation to early Sandinista choices. In examining Soviet-type socialist economies, I have focused attention away from both the simple distinction between public and private ownership, and the alleged distinction between the "*ex ante*" rationality of socialism and the "*ex post*" rationality of capitalism. Rather, I have focused on the manner in which the catch-up socialist economy reorients the attention of firm

²It is in large part for this reason, I believe, that we find the leadership justifying the capitulation to the market in the late 1980s with the language of developmentalist Marxism: changes must be legitimated through a language that bears some relation to the traditional language of the party.

managers from market signals to administrative ones, and the consequences of this reorientation for other aspects of the socialist economy.

This reorientation of attention is quite compatible with a "poly-cephalic" state. That is, the fundamental distinction between a capitalist market economy and catch-up socialism does not depend on the existence of an all-powerful planning bureau.

This approach to the socialist economy helps give us a sense of the key points of inflection in the Sandinista decade. Thus, I have argued that the eclipse of MIPLAN from 1982 on did not imply an abandonment of key characteristics of the catch-up socialist project. The stress on state control of the economy and on output maximization, typical of catch-up socialist enterprises, continued despite the absence of a powerful planning ministry.

Similarly, the framework used suggests that the change of direction introduced by the 1985 economic plan was not as fundamental as has been argued by many observers. The reality of the market was to be taken into account, but the 1985 plan clearly sought to consolidate the state-dominant sector of the economy

The more decisive policy shifts began to appear at a point that has received less attention from observers: in the confusion that followed upon the failure of the 1985 strategy, the groundwork was laid for an overall "turn to the market." The first major symptom of this was the relaxation of controls on peasant grain trading. But this was a highly contradictory turn to the market, as was argued in chapter seven, and did not yield the economic stabilization. Had it done so, the thoroughgoing capitulation to the market in the 1988-1989 period would have been avoided.

3. Dilemmas and challenges

Prices and markets. Finally, the approach taken here has helped illuminate some of the dilemmas and challenges faced by the Sandinistas. We will recall some of those dilemmas here, beginning with questions related to prices and markets. A central dilemma for the FSLN was that captured in the Preobrazhensky-Bukharin debate: can a socialist

government foster the process of state-centred accumulation without weakening its political alliances³? This problem is an expression of the basic political challenge facing catch-up socialism which, by its nature, must emphasize the need for accumulation, but rapid accumulation tends not to be the most popular of policies.

The Preobrazhensky-Bukharin dilemma is but one of the those related to the tension between the economic project of the socialist state and its need for political consolidation. I have argued throughout the thesis that this tension is heightened by the "statization" of economic decisions and the concomitant destruction of the "fetishes" bequeathed by capitalism. The salary "fan" between low-level workers and specialists, the prices paid to the export bourgeoisie, the mechanisms by which grain is acquired from the peasantry: suddenly, none of these is part of the "natural order of things." Everything is open to discussion, at least so long as discussion is being tolerated within the party and society at large, as it was in Nicaragua.

The problem of accumulation is related to the state's general ability to capture resources, which brings us to the question of inflation and the "printing-press." Though a concern for financial discipline and stability is often associated with IMF prescriptions, the Nicaraguan experience suggests that the problem of finances must be taken seriously within any project of social change. This is so for both political and administrative reasons. In seizing resources through monetary emission, the state has little control over who actually yields up those resources. The state's political alliances, therefore, may be left at the mercy of an inflationary struggle in the private economy. Worse, if the party leads some sectors to hoist the white flag in that inflationary struggle, as occurred with salaried workers organized in the Sandinista unions, it is precisely the sectors most likely to support the revolution that are hardest hit by price increases. This is not a recipe for

³One fruitful result of the focus on Nicaragua as a case study in catch-up socialism is that it points us towards traditional socialist debates. Preobrazhensky's work is of particular interest, as his concept of the state complex helps reveal the intricacies of state accumulation. Thus, we saw in chapter seven how a Preobrazhensky-based analysis revealed the supposedly profitable activities of state textile firms to be unprofitable for the state complex as a whole.

long-term political survival.

In addition, an inflationary situation can wreak havoc with the state's attempts to administer the economy. The broad consultative mechanisms established to determine prices in the state sector, for example, were incompatible with a situation of rapid inflation. Similarly, the SNOTS system, which might have been effective in ordering salaries in a situation of stable prices, broke down badly in the face of inflation.

There are important interrelations among the foregoing problems. In particular, a different approach to the accumulation versus alliances question might have changed state enterprises from fiscal liabilities into fiscal assets. This in turn would have reduced the salience of inflation. Because much of the inflation of the late 1980s reflected the effects of attempts to compensate for earlier inflation, an "accumulationist" orientation might have yielded significantly different results for the decade as a whole.

But we have seen that there were many roots to the fiscal deficit and inflation. The fiscal impact of the defence effort, in particular, was decisive. The deficit and the inflation which resulted from it were also related to a type of accumulation distinct from that just discussed: we have seen that MIDINRA, in particular, laid great stress on the rapid accumulation, not of financial resources, but of means of production. Major investment projects were launched in the early 1980s that relied heavily on external financing, yet still represented a serious claim on the state budget. When the war hit in full force, these projects were one of the factors that limited the state's ability to adapt. Thus, the catch-up socialist project faces a tension between the promotion of economic dynamism and the preservation of "slack" in the economy, which allows the society to confront external shocks, be they political or economic. Thus, the Nicaraguan experience suggests that, while decision-makers may seek to overcome underdevelopment with the same audacity with which they seized power, such a course may leave the economy extremely vulnerable.

A final dilemma related to prices and markets has to do with the "moral substratum" of the socialist economy. In the absence of an extremely authoritarian state,

and maybe even then, the success of non-market distribution mechanisms will depend upon the generalized acceptance of certain norms of behaviour, norms which have often been termed "socialist morality." For example, the solidity of a rationing system, its immunity from "leaks," will vary with the degree to which people accept the system as fair and content themselves with the products available through the system. This acceptance, in turn, depends upon the degree to which people see each other as fellow members of society with an equal claim on that society's production.

The insurrection period may do much to create the attitudes that non-market structures require. Unfortunately, the Nicaraguan experience suggests that the manner in which price policy is handled may do much to erode the ethic required to sustain alternatives to the market. Thus, I argued in chapter six that policies that led to an ever-greater gap between prices on the official and unofficial markets helped destroy the very moral substratum needed to maintain the official market, by making it too costly to obey the law, and too easy to do otherwise.

The implication of this analysis is that, while "socialist morality" might constitute an important resource for a revolutionary state, it is a resource that must be used judiciously. More concretely, there may be limits on the degree to which official prices can diverge from unofficial ones before provoking a whole range of unofficial-market phenomena which erode respect for non-market economic mechanisms⁴.

State organization. Moving to the question of state organization, the Nicaraguan experience illustrates the tension between increasing the state's role in the economy and containing "bureaucratism." I have argued that this term was used quite loosely in Nicaragua, and that the critique of bureaucratism often served as a cover for other goals, such as escaping financial controls. Nevertheless, there was much validity to the oft-

⁴These limits would vary product by product, depending for example upon the structure of production. Thus, from the outset the Sandinistas had more room to manoeuvre with industrial goods than with peasant grains, given the dispersed production of the latter. By the late 1980s, however, even state industrial firms had ceased to respect the norms of the state economy.

expressed frustrations with the growth of the state apparatus, and to the complaints that parts of the state had involuted, loosing contact with the economic sectors they were supposed to be coordinating⁵. While there is nothing inevitable about "bureaucratism," it is an entirely unsurprising result of the rapid expansion of the state's role.

A second type of dilemma related to state organization concerns the behaviour of state firms: how can the state profit from the social nature of property without subjecting firms to such a wide variety of demands that they either do nothing well, or do pretty much whatever they want? In particular, how can the state harvest the benefits of "internalizing externalities" (chapter two), without subjecting firms to the crude criterion of maximizing gross output? Neither the Nicaraguan nor other catch-up socialist experiences have solved such problems.

Finally, must the expansion of the formal, state-dominant sector be seen as an attack on the informal sector? Is it possible to formulate policies that would create strong "pull" factors drawing people out of the informal sector? Or does this suppose ideal conditions, unlikely to exist in a transitional situation? As we have seen, relations between the state and the informal sector generated serious problems for the Sandinistas, as the party's base of support overlapped significantly with an economic sector it was trying to subject to control.

The bourgeoisie. The thesis has also revealed a number of dilemmas related to the survival of the bourgeoisie. Any catch-up socialist project will probably have some need for the bourgeoisie's expertise, but the Nicaraguan case has shown that this expertise carries an extremely high price. Unless one can successfully atomize the bourgeoisie, converting into a set of economistic "potatoes in a sack," one will be faced with an adversary with formidable internal and external political resources. Even should one be so fortunate as to develop an economistic bourgeoisie, there will be tensions between that bourgeoisie's desire to continue living in the style to which it is accustomed, and the

⁵See for example UNAG's critiques of MIDINRA (chapter seven).

state's need to capture as much of the economic surplus as possible. In the Nicaraguan case, this latter problem was most clearly expressed in the struggle for the "dollar surplus": despite the theoretical state monopoly on foreign trade, the bourgeois demand for luxury imports generated significant unofficial-import mechanisms, which drained an ever-greater share of foreign exchange from the official sector.

The peasantry. Finally, with respect to the peasantry, catch-up socialists must reconsider whether small-hold production is compatible with their project. This requires that the "organic" nature of various alternative models of socialism be examined anew: which components are truly vital? Which could be modified without greatly affecting the rest? Is the traditional resistance to peasant production one of the elements that could be relaxed? Under what conditions?

If one concludes that peasant production is not compatible with one's project, then the wide range of political problems that ensue must be confronted. The Nicaraguan case is sadly eloquent on this point⁶.

B. The paths not chosen

Given the long list of dilemmas and challenges enumerated above, was the Sandinista project doomed from the start? There can be no confident answer to such a question. Perhaps, had the flexibility which characterized Sandinista policy in the mid-1980s been present from the outset, the revolution would have avoided the crisis that undid it. Perhaps, had the Sandinistas initially delayed their project of economic transformation for the sake of consolidating political support, or had they given civil society time to "mature" according to its own rhythms, the counter-revolution would never have found supporters in Nicaragua.

⁶At the same time, the Nicaraguan case points to the range of intermediate forms between peasant and socialized production that might allow a socialist government to skirt the problem: both the "idle furrow" and the "credit and service" cooperatives, sought to combine elements of individual and cooperative production (chapters six and seven). Had MIDINRA treated these as more than marginal phenomena, results in the countryside might have been different.

But all these "perhaps's" are quite speculative. One can say little about the likely outcomes of the paths not chosen. That the path which the Sandinistas constructed through their choices proved so difficult does not mean that the paths not chosen would have been conflict-free. As was stressed at the outset, we must examine Sandinista choices within the context of concrete dilemmas, rather than jumping hastily to the conclusion that this or that choice was a simple "error."

Some Sandinistas have in fact begun to examine the Sandinista decade in terms of unambiguously mistaken choices. An examination of some of the problems with this line of analysis will illustrate the difficulties inherent in drawing simple lessons from the Nicaraguan experience. For example, in interviews given just before the 1990 election, Tomás Borge reflected upon "the greatest mistake made by the Sandinist government in its 10 years in power." "The worst mistake," Borge suggested, "was to try to artificially raise the people's living conditions" (FBIS 26-02-90). "Another mistake," he noted elsewhere, "was not to make a massive redistribution of the land confiscated from Somoza" (FBIS 16-02-90). Let us review the dilemmas that led to these two perceived blunders.

Should the Sandinistas have avoided "artificial" attempts to raise living standards? We may note first that Borge's statement continues a theme of Sandinista discourse stressed from the mid-1980s on, a theme that emphasized the need to come to terms with reality, to overcome the voluntarism of the early years, etc. In speaking of "artificial" attempts to raise living standards, Borge also continued the tendency to reconstruct "fetishes" (see chapter eight): the "artificial" is contrasted to the "true" or the "natural"; "realism" is contrasted with a "voluntarism" that ignores reality.

Interestingly, this linguistic shift brought the Sandinistas into line with critiques offered by the rightist opposition in the early 1980s. Thus, for example, the Conservative Democratic Party insisted in 1980 that social services must recognize the limits of "national resources and realities" (LP 09-03-80). The opposition at the outset of the decade, and the Sandinistas at the decade's close, shared the language of realism and austerity.

But how realistic would this austere realism have been in 1980? We should recall

that the FSLN felt it could not turn to the people with a language of economic austerity on the morrow of having promised it was ready and able to transform reality. The 1980 economic plan expressed this constraint nicely when it noted that "the people will not accept paying for the economic recovery with their hunger, after having paid for the liberation with their blood" (MIPLAN 1980, 116).

Was this a false constraint? The Sandinistas at the time saw themselves engaged in an "open card game with the bourgeoisie" (H. Ortega 1981, 38), a game which included struggle for the loyalties of ordinary Nicaraguans. This was the context in which the choice was made to attempt an "artificial" increase in living standards. As I argued in chapter one, there is simply no way of knowing whether or not the Sandinistas' base of support could have survived an initial policy of economic austerity.

The motives that would lead the Conservative Democrats to stress respect for "national resources and realities" seem straight-forward: for the right, the language of "realism" helps render invisible questions of distribution, questions concerning the struggle for the economic surplus, a struggle that might have made the raising of living standards viable. Less clear are the motives that would lead Sandinista leaders to condemn as error that which was a reasonable response to the political challenges of the moment⁷. Perhaps the disaster of 1990 has made some leaders forgetful of the dilemmas of 1980.

This of course is not to say that the choices of 1980 were necessarily the wisest. I am merely arguing that an understanding of how alternatives appeared to decision-makers at the time they were making decisions should make one less ready to conclude that any given choice was a simple mistake.

⁷Not all leaders share Borge's viewpoint. Vice-President Sergio Ramírez commented in 1988 that

The revolutionary push [*empuje*] could not have occurred without programmes for housing, school construction, hospitals, health clinics, because this was part of the very dynamism of the Revolution. I cannot imagine a conservative revolution, in the sense that we would have begun in 1979 to restrict spending, adjusting the budget, holding back investments, eliminating social expenditures, because all that was part of the political dynamic of the moment (B 02-06-88).

The second perceived error concerns relations with the peasantry. Should the FSLN have followed a "peasant path" from the outset, distributing confiscated land to individual farmers? Should it have refrained from interference in the marketing of peasant products?

More than any other area of policy, relations with the peasantry led the Sandinista leadership into a profound self-criticism after the loss of power. In 1990, Sergio Ramírez wrote of the FSLN and the Nicaraguan peasant:

My dream of justice and modernity for his life clashed dramatically with the world that continued to surround him, a world of isolation, misery and backwardness, and it clashed with his own perception of this world... We wanted to take away his religion, separate him from his sons, oblige him to become organized in cooperatives, impose a price for his crops, recruit him to our side to fight in a war in which victory would forever strip him of his simple values, all the more encompassing for their simplicity. That was what was whispered in his ear, with mellifluous power of persuasion, while our message was often loud, rhetorical, imposing. And meanwhile the golden fruit of our dreams would take years, maybe decades, to ripen.

It was for no other reason that the counterrevolutionary war became converted over time into a peasant war and divided the peasants between those who understood the reasons for the revolution and those who rejected them (1991, 23).

One hears in these words, still, the old theme of peasant backwardness and its clash with modernity. But one also hears, finally, a note of doubt, a loss of the arrogant belief that modernity is necessarily in the right in its clash with backwardness. And one hears, above all, a frank recognition of the enormous cultural gulf that always separated the FSLN from one of the supposed "fundamental forces of the revolution."

In its report to the FSLN's first party congress, in 1991, the National Directorate also paid great attention to perceived errors in the relation with the peasantry. The most important of these was the "initial tendency to distribute lands primarily in the form of state farms and cooperatives" (Dirección Nacional 1991, 18)⁸.

⁸ Among other perceived errors, the Directorate also expressed regret over the early monopolization of material and human resources by the state farms, expropriations of some "medium-scale producers of peasant origin and of efficient producers," and the "imposing style that characterized our political and administrative behaviour, which was resented by the peasantry" (Ibid., 19).

Elsewhere, controls on rural trade, military service, and declining urban-rural terms of trade were noted by the Directorate, though not explicitly acknowledged as errors

The scope of the Sandinistas' self-critique with respect to the peasantry is impressive. But as Alvin Gouldner writes, "Confession may be good for the soul, but it is no tonic to the mind" (1973, 54). Were policies towards the peasantry any more unambiguously in error than the "artificial" attempt to raise living standards? Or are some Sandinistas once again forgetting the dilemmas of the early years?

We must remember that the original focus on state farms was perceived as an integral part of the overall project of a state-dominant economy. The shift to the cooperative phase of the agrarian reform in 1981-1982 represented an attempt to adjust agrarian strategy at a minimum cost to the broad project, which was a project preparing the ground for socialism, *as the leadership understood socialism at the time*. Leaving aside such problematic motives as the desire to overcome peasant "backwardness," one cannot dismiss as simply mistaken the belief that state farms or cooperatives were essential to the Sandinista project. Certainly the events of the late 1980s did little to dispel the Sandinista belief that a strategy of transferring land to individuals was incompatible with socialized marketing structures. Nor can one doubt the tension between such an agrarian strategy and the labour needs of the export sector. Once again, therefore, the choices the Sandinistas had to make on agrarian questions were difficult ones, and it is not clear whether the paths not chosen would have yielded unambiguously superior outcomes.

C. Conclusion

To summarize: I believe it is more helpful to study the Sandinista decade as a dilemma-laden, rather than error-ridden, process. Consideration of the challenges faced by the Sandinistas should lead us to a more general reflection upon the dilemmas of the socialist project, however conceived, and to critical reflection on the Marxian socialist vision as a whole. These two needs overlap to some extent. It is important to recognize that the original Marxist vision of socialism was to a considerable extent dilemma-free. In

Marx's original vision of "revolution in the fullness of time" (Schumpeter 1976, 58), socialism would simultaneously realize a number of human values. Socialism would be democratic, because the workers -- who would be the vast majority of late capitalist society -- would already have revolutionized themselves in the course of the struggle against capitalism; there would be no serious problem of accumulation, because the forces of production would already stand at an advanced level; and since the defeat of capitalism would eliminate a tremendous waste of social resources, it would even be possible to accelerate accumulation while humanizing work and increasing leisure. All this was possible in the first phase of socialism, prior to the overcoming of scarcity, the most utopian element of Marx's vision.

This all-encompassing harmony, this echo of ancient religious visions of a future in which "all manner of thing shall be well," as Julian of Norwich put it, is perhaps the best reason for being sceptical of the original Marxist vision. If one rejects the belief in a harmonious realization of a wide range of human values, then one must tackle the dilemmas of socialism, and one must work to construct mechanisms by which people themselves may make intelligent choices in the face of those dilemmas⁹.

In 1992, it is woefully banal to say that socialists must reflect critically upon the Marxist vision of socialism. But it must be stressed that this critical reflection requires an identification of both what must evolve in that vision and, much more difficult today, what needs to be preserved. It is enormously tempting in 1992 simply to abandon that vision, to turn to "post-Marxism" or to some other "post-," many of which often seem more "pre-" or "anti-" than "post-." As I noted in chapter three in discussing Laclau and Mouffe, the generalization of such a course may well sacrifice the theoretical wealth of Marxism and of the Marxist tradition. This will be a loss equivalent to the disappearance of Aristotle from European thought for a millennium, until his re-introduction via the

⁹The above applies to socialism in general. As I argued in chapter two, the conveniently convergent values of the Marxist vision are torn asunder in a particularly harsh way in the case of revolution under conditions of "backwardness."

work of Muslim scholars.

Paralleling the danger of a general neglect of the Marxist vision is the danger that deeper study of the fate of twentieth-century socialism will likewise be neglected. It is tempting for both Marxist and "post-Marxist" progressives of whatever stripe to conclude that state socialism was nothing but a disaster best forgotten. This too would be tragic, because alternatives to capitalism will continue to be sought throughout the world, and it is vital to examine the fate of previous alternatives. Among these experiences is the Sandinista revolution which, I believe, will continue to be worthy of careful study.

Certainly Nicaraguans themselves will continue to study that experience. And, almost as certainly, they will continue to grope for some new social model, as the situation in which they now find themselves is truly desperate. Let us return to the point at which we began: a rural hill-top several years ago. Don Andrés and I met the boredom of guard duty by swapping visions of the future Nicaragua. Mine, the vision of an urban middle-class socialist from a wealthy country, focused on peace and the resumption of the Sandinista project of transformation, however modified. His, the vision of a poor rural Nicaraguan puzzled by the hurricane of history that had swept through his country and turned his own life upside down, focused on peace and a return to an individualistic peasant existence in which he could produce an adequate supply of beans and corn.

Neither of our visions has been fulfilled. Nicaragua today enjoys neither peace nor economic well-being, and there is little prospect of attaining either in the near future. Speaking on behalf of those who fell in love with the Nicaraguan people and with their Sandinista revolution, I can say that both the vision and the suffering of that people will always haunt, and must always haunt, our work for socialism, wherever that work takes place.

Appendix: The G.D.P.

There is a difficulty with using the G.D.P. and its related indicators¹⁰ as a measure of the condition of the Nicaraguan economy: the G.D.P. is a quintessentially capitalist indicator, incorporating many of the hidden values of Western economic thought. Just as any individual capitalist should ignore the "free goods" expended or polluted in his economic activity, so too does the G.D.P. ignore the depletion of the "irreplaceable capital which man has not made, but simply found, and without which he can do nothing" (Schumacher 1974, 11).

The G.D.P. measures success in terms which the entrepreneurial class can identify as its own: the growth of income and the growth of the "market." While income growth has also been a goal of the working class, G.D.P. omits some of the most important goals of the organized working class, such as the reduction of the working day (Drenowski 1970, 24).

By focusing in an undifferentiated manner on the growth of total net income, conventional national income measures tend to reflect the situation of the wealthiest strata. A simple thought experiment demonstrates this. In accordance with Nicaraguan income distribution data (see chapter 4), a 10% increase in the income of the wealthiest 5% of the population, with all other incomes remaining constant, would boost "national income" by 2.8%. On the other hand, a 10% increase in the income of the poorest 50% of the

¹⁰For purposes of this discussion, the distinction between G.D.P. and G.N.P. will be ignored.

population will only increase national income by 1.5%¹¹. This has led to the suggestion that income growth be recalculated using equal weights for each income class¹².

The foregoing critiques concern the implicit values of the G.D.P. There are also difficulties of an empirical nature. G.D.P. measurements will generally incorporate non-monetized production only through unreliable imputation. In addition, such imputation will exclude whatever portion of women's labour happens to be classified as "domestic"¹³. These weaknesses will be particularly problematic when economic structures are in flux, with a shifting balance between monetized and non-monetized production, as in post-1979 Nicaragua¹⁴.

Accepting the validity of the foregoing critiques, one is nevertheless left with the fact that INEC, the Nicaraguan statistical bureau, did not collect the type of information

¹¹One could object that G.D.P.-type measures are concerned not with the income of rich Nicaraguans as opposed to poor ones, but with the growth of income, period. But this is an evasion of distribution questions (and echoes the evasion of such questions in neo-classical economics).

To speak of "national income" obscures the fact that there is no entity called "the nation" which can dispose of the income increase in the way that the rich Nicaraguan can. While one may justify talk of "national" income by invoking the possibility of some future income redistribution, I would argue that, generally speaking, a development path that concentrates income in a small class is probably concentrating productive and entrepreneurial knowledge in that class as well. Hence a functional dependence is being created, and it will be difficult to distribute income or wealth away from the wealthiest class (with the exception of its purely "parasitical" elements).

¹²That is, the growth rate for national income would be the average of the growth rates for each quintile of the population. See Chenery et al (1974, 42).

¹³On the imprecision of this category, see Waring (1988, 81).

¹⁴Colburn (1990, 7) notes that Nicaraguan agricultural statistics are highly problematic, especially in trying to estimate, not just non-monetized peasant production, but private sector production in general. One must always bear in mind the motives people may have for giving or withholding information. In Nicaragua, where private producers were seeking to avoid taxes or forced sales to government purchasing agencies, motives abounded for distorting production data.

Rural Nicaraguans were hostile to data gathering in general, for a variety of reasons. Several university students of mine visited a private coffee farm in early 1985 to conduct a survey on coffee pickers. As the survey included a question on the age of each picker, many coffee pickers concluded that the students were really collecting information to be used by the military draft authorities. Hence, many pickers left the farm the day after the survey was conducted, and the owner, not surprisingly, refused to allow future surveys to be conducted there.

that would allow one to construct an alternative synthetic index of economic performance. While one might prefer the "Physical Quality of Life Index" (Morris 1979) for example, there was insufficient data to track the performance of the index¹⁵. Similarly, calculation of national income growth using "equal weights" is frustrated by the lack of income distribution data for the 1980s. Thus, this thesis will make use of the G.D.P., bearing in mind the foregoing critiques¹⁶.

¹⁵To consider just one of three components of the POLI: the government regularly claimed that the 1980 literacy crusade had reduced illiteracy to 12%. No other datum was provided throughout the 1980s. This figure does not seem credible. In 1984, I conducted a survey among displaced peasants near Managua. The results suggested a level of illiteracy well above the official 12% figure, though these peasants had lived in a relatively central part of the Pacific Coast area, and would be expected to have a higher literacy level than those living in more remote areas of the country.

¹⁶Thus, for example, while the evolution of private consumption per capita will be tracked, it should not be assumed that the decline in consumption affected all classes evenly. At least until 1983, official data indicate that "non-basic" consumption was dropping much more rapidly than "basic" consumption (Vilas 1985, 39). The problems with this distinction are that presentations of such data never include a definition of basic and non-basic consumption, and there is not a consistent data series for the two categories for the 1980s as a whole.

Statistical Appendix

Introductory Notes:

- i. Wherever possible, I have tried to use ECLAC data. Thus, unless otherwise noted, data are from various years of ECLAC, Economic survey of Latin America and the Caribbean (ECLAC: Santiago)¹, and from ECLAC, Preliminary overview of the economy of Latin America and the Caribbean: 1990. (ECLAC: Santiago, 1990). To incorporate data revisions, in each case I have used the most recent ECLAC data available.
- ii. The quintal is the standard unit of weight in Nicaraguan agriculture. It equals 100 pounds.

A. General Tables

A1. GDP: 1977-1990

	Real GDP	Change	Real GDP/ Capita	Change	Private Cons.	Change	Private Cons./ Capita	Change
1977	100.0		100.0		100.0		100.0	
1978	92.2	-7.8%	89.7	-10.3%	94.0	-6.0%	91.5	-8.5%
1979	67.8	-26.5%	64.2	-28.5%	68.5	-27.1%	64.9	-29.1%
1980	70.9	4.6%	65.1	1.5%	80.7	17.8%	74.2	14.3%
1981	74.7	5.4%	66.5	2.1%	69.3	-14.1%	61.7	-16.8%
1982	74.1	-0.8%	63.8	-4.0%	60.4	-12.9%	52.0	-15.7%
1983	77.5	4.6%	64.5	1.2%	57.0	-5.6%	47.5	-8.7%
1984	76.3	-1.6%	61.4	-4.9%	54.1	-5.1%	43.6	-8.2%
1985	73.2	-4.1%	56.9	-7.3%	49.7	-8.1%	38.7	-11.1%
1986	72.5	-1.0%	54.5	-4.3%	51.0	2.5%	38.3	-1.0%
1987	71.9	-0.8%	52.3	-4.0%	48.3	-5.3%	35.1	-8.3%
1988	64.0	-10.9%	45.0	-13.9%	--	--	--	--
1989	62.2	-2.9%	42.3	-6.1%	--	--	--	--
1990	58.8	-5.5%	38.6	-8.8%	--	--	--	--

Cumulative changes

78-79	-32.2%	-35.8%	-31.5%	-35.1%
80-81	10.2%	3.6%	1.1%	-4.9%
82-84	2.1%	-7.6%	-21.9%	-29.4%
85-87	-5.8%	-14.8%	-10.7%	-19.3%
88-89	-13.5%	-19.2%	--	--
78-90	-41.2%	-61.4%	--	--

Notes:

- i. Data for private consumption are from an SPP data base. (ECLAC does not have a consistent data series for private consumption.)
- ii. 1990 data are preliminary.

¹Prior to 1983: ECLA, Economic Survey of Latin America.

A2. External Data
(Millions of dollars)

	Goods Exports (FOB)	Goods Imports (CIF)	Balance on Goods Trade	Current Account Deficit	External Public Debt	Debt/ Export Ratio	Terms of Trade
1977	636	761	-125	-192	874	1.4	100
1978	646	594	52	-34	931	1.4	88
1979	616	360	256	90	1131	1.8	79
1980	450	887	-437	-491	1825	4.1	76
1981	508	999	-491	-649	2566	5.1	70
1982	406	776	-370	-557	3139	7.7	67
1983	429	819	-390	-635	3788	8.8	65
1984	385	826	-441	-727	4362	11.3	82
1985	301	892	-591	-827	4936	16.4	78
1986	247	825	-578	-799	5760	23.3	86
1987	300	824	-524	-856	6270	20.9	78
1988	235	808	-573	-865	7220	30.7	78
1989	292	711	-419	-571	7570	25.9	71

Note: The debt columns refer to medium- and long-term debt only.

A3. Index of export volumes of principal exports

	Coffee	Cotton	Sugar	Beef
1977	100.0	100.0	100.0	100.0
1978	110.0	110.8	98.6	128.9
1979	111.7	97.6	91.5	134.7
1980	92.8	16.9	62.5	77.5
1981	105.0	64.3	103.5	35.9
1982	93.8	53.4	95.7	55.1
1983	131.5	68.1	110.2	53.9
1984	82.7	71.5	102.9	34.1
1985	80.5	57.6	58.0	17.6
1986	62.4	42.2	71.4	9.9
1987	75.0	40.2	50.5	25.8
1988	62.5	29.9	34.8	36.1

Note: Data for 1977-1982 are from Stahler-Sholk et al (1989). The overlapping parts of the ECLAC data series and the Stahler-Sholk et al series are consistent.

A4. Fiscal data

	Taxes/ GDP	Total Expenditure/ GDP	Deficit/ GDP	Defence and Security/ Total expend.
1970-77	10.2%	16.6%	4.0%	11.2%
1978	9.7%	21.3%	7.7%	18.2%
1979	10.3%	22.9%	8.9%	15.0%
1980	18.7%	32.0%	10.0%	11.0%
1981	18.8%	32.6%	11.8%	--
1982	20.3%	39.2%	13.6%	--
1983	26.0%	61.1%	30.0%	18.0%
1984	30.7%	59.8%	24.8%	23.2%
1985	27.7%	55.5%	23.4%	35.6%
1986	27.8%	50.0%	17.7%	37.1%
1987	24.6%	44.2%	16.7%	42.0%
1988	17.3%	43.5%	25.5%	--
1989	17.7%	24.2%	5.2%	--
Averages:				
1978-79	10.0%	22.1%	8.3%	
1980-81	18.8%	32.3%	10.9%	
1982-84	25.7%	53.4%	22.8%	
1985-87	26.7%	49.9%	19.3%	
1988-89	17.5%	33.9%	15.4%	

Note: Defence data for 1970-80 are from IMF (1980-1985); 1981 defence data: Barricada 03-10-83. Other data for 1970-78 are from BCN (1979). 1979-1980 data are from Spoor (1987). The overlapping parts of these series are broadly consistent with one another and with ECLAC data. I have no overlapping data on defence.

A5. Monetary and inflation data

	December CPI (1972=100)	Dec.-Dec. Inflation	M1/ GDP
1970-77			12.6%
1978			13.2%
1979	322		24.2%
1980	402	24.8%	21.3%
1981	496	23.4%	23.2%
1982	606	22.2%	24.4%
1983	805	32.8%	34.7%
1984	1,209	50.2%	46.4%
1985	5,250	334.2%	50.6%
1986	44,489	747.4%	47.7%
1987	643,882	1347.3%	57.0%
1988	**	33656.8%	55.0%

Notes:

- i. Pre-1986 data are from an SPP data base. These data series are broadly consistent with those of ECLAC.
- ii. In 1988 a new CPI was introduced.

B. Pre-1979 economic performance**B1. Role of agriculture in the GDP**

	GDP Share
Agriculture	
Cotton	5.0%
Coffee	1.7%
Cane sugar	0.6%
Grains	2.5%
Other agricultural production (crops)	2.1%
Beef	5.2%
Other agricultural production (livestock)	1.2%
Total agriculture	18.3%
Agriculture-processing industries	
Food	6.6%
Tobacco	0.7%
Agriculture-supporting industries	
Textiles	1.0%
Chemicals and chemical prods. (industrial)	1.4%
Total: Agriculture-related industry	9.6%
(as % of all industry)	58.3%
Total: agriculture and agriculture-related industry	27.9%

Notes:

- i. Calculations are based on the 1974 Central Bank input-output matrix (rpt. CEPAL 1983).
- ii. Agriculture-processing industries are defined as those industries for which more than 30% of the inputs originate in domestic agriculture.
- iii. Agriculture-supporting industries are defined as those which have a higher share of total output used as inputs for agriculture than the output share devoted to either final consumption or inputs for other sectors.

B2. Structure of 1976 goods exports
(Millions of dollars)

	Value	% of Total
Coffee	119.4	22.0%
Cotton	130.6	24.1%
Other unprocessed agricultural goods	28.3	5.2%
Sub-total: unprocessed agricultural goods	278.3	51.4%
Beef	37.6	6.9%
Refined Sugar	52.9	9.8%
Other processed agricultural goods	59.8	11.0%
Sub-total: processed agricultural goods	150.3	27.7%
Sub-total: all agricultural goods	428.6	79.1%
Chemicals	49.1	9.1%
Textiles and leather products	21.3	3.9%
Other industrial products	34.4	6.3%
Mineral Products	8.5	1.6%
Total exports	541.9	100.0%

Source: BCN (1978).

B3. Fluctuations in Primary Export Indices: 1970-79
{1968=100}

	Prices	Absolute Value of Fluctuation	Quantities	Absolute Value of Fluctuation
1970	102.99		94.65	
1971	101.67	1.3%	100.69	6.4%
1972	112.62	10.8%	124.96	24.1%
1973	120.46	7.0%	129.08	3.3%
1974	169.61	40.8%	150.19	16.4%
1975	131.34	22.6%	154.97	3.2%
1976	214.68	63.5%	156.62	1.1%
1977	294.26	37.1%	156.73	0.1%
1978	260.87	11.3%	167.99	7.2%
1979	240.19	7.9%	157.83	6.0%
Average:		22.5%		7.5%

Note: Export indices are from BCN (1979, 72).

B4. Cotton yields (1960-1979)
 [Yields in quintals per hectare]

	Yield		Yield
1950	6.65	1964	20.03
1951	8.68	1965	16.82
1952	8.82	1966	16.45
1953	9.88	1967	15.12
1954	11.87	1968	15.31
1955	9.39	1969	13.66
1956	13.09	1970	17.88
1957	12.95	1971	20.35
1958	14.43	1972	15.54
1959	9.05	1973	17.42
1960	12.35	1974	14.94
1961	16.03	1975	19.51
1962	16.64	1976	12.85
1963	17.48	1977	12.24
1964	20.03	1978	14.15

Annual trend growth based on linear regression:

1950-1964= 6.3%

1965-1978= -1.5%

Notes:

- i. On the use of trend growth, see note i. of the following table.
- ii. Yield data are from Evans (1987).

B5. Output of selected agricultural products (1968-79)
 [Crops= thousands of quintals; beef= thousands of head]

	Beans	Corn	Rice	Cotton	Coffee	Beef
1968-1969	1,218	4,694	922	1,975	658	247
1969-1970	689	4,040	1,019	1,458	737	276
1970-1971	790	4,126	1,152	1,688	857	310
1971-1972	819	4,033	1,184	2,244	913	326
1972-1973	622	3,171	1,061	2,288	763	319
1973-1974	743	4,156	1,122	3,224	798	309
1974-1975	1,013	4,414	1,469	2,624	891	221
1975-1976	962	4,176	1,224	2,397	1,068	325
1976-1977	1,177	4,371	825	2,573	1,288	370
1977-1978	895	3,942	1,050	2,646	1,200	389
1978-1979	1,207	5,525	1,300	2,445	1,415	468

Annual trend growth based on linear regression:

1968-69/						
1978-79	2.8%	1.2%	1.1%	4.6%	7.0%	4.4%

Notes:

- i. Because of the large annual variation in production, calculations of growth for a given period can be overly dependent on the beginning and ending year chosen. For example, if one compares bean production in 1966-67 with 1976-77, one has an average annual rate of growth of +0.3%. Comparing 1967-68 with 1977-78, however, one comes up with -2.9%.
To avoid these problems, I have calculated trend growth for the period under consideration, through linear regression estimation of a logarithmic equation.
- ii. The 1978-79 agricultural cycle is chosen as the last relatively normal year of the Somoza period. Though many works have chosen 1977-78 as the last cycle unaffected by the insurrection, and the base year by which agricultural output under the FSLN was evaluated, in fact agricultural production was generally higher in 1978-79 than in 1977-78.
- iii. Annual population growth for the period is estimated at over 3%.
- iv. Production data are from BCN (1979).

B6. Changes in land distribution

	Farms	Area	Share of Farms	Share of Area
1952				
Less than 7 hcs.	17,943	77.8	34.8%	2.3%
7 to 35 hcs.	19,308	432.7	37.5%	12.8%
35 to 350 hcs.	13,431	1,459.3	26.1%	43.1%
Over 350 hcs.	845	1,419.0	1.6%	41.9%
Total	51,527	3,388.8	100.0%	100.0%

Gini coefficient: 0.71

1963				
Less than 7 hcs.	51,936	190.1	50.8%	3.5%
7 to 35 hcs.	27,976	614.1	27.4%	11.2%
35 to 350 hcs.	20,794	2,408.6	20.3%	44.1%
Over 350 hcs.	1,495	2,248.3	1.5%	41.2%
Total	102,201	5,461.1	100.0%	100.0%

Gini coefficient: 0.76

Note: Calculations on the basis of data from Mayorga (1984, 65).

B7. Import Intensity of Industrial production
(excluding production and imports related to Petroleum refining and related industries)
[Values in millions of *córdobas*]

	Gross Value of Industrial Production	Imported Inputs for Industry	Import Intensity
1960	800.7	146.0	18.2%
1961	896.7	152.6	17.0%
1962	1032.8	221.3	21.4%
1963	1205.2	234.2	19.4%
1964	1386.5	282.1	20.3%
1965	1534.8	347.5	22.6%
1966	1654.4	390.3	23.6%
1967	1836.9	381.5	20.8%
1968	2039.4	426.5	20.9%
1969	2232.8	428.9	19.2%
1970	2523.6	487.1	19.3%
1971	2773.0	486.9	17.6%
1972	3113.4	564.2	18.1%
1973	3603.0	859.3	23.9%
1974	4644.6	1417.3	30.5%
1975	5398.5	1133.0	21.0%
1976	5878.8	1210.6	20.6%
1977	6569.9	1635.1	24.9%
1978	6998.3	1428.0	20.4%

Notes:

- i. Data are from BCN (1979), except that, from 1973 on, I use Spoor (1987) data for industrial imports, as the BCN (1979) data series incorporates crude oil imports into the industrial inputs category as of 1973.
- ii. The córdoba value of imports has been calculated on the basis of data on the corresponding dollar values by applying an implicit rate of exchange, equal to the ratio of all imports, expressed in córdobas, to all imports, expressed in dollars.

B8. Import intensity of production, by sector

	Import Intensity	Direct and Indirect Import Requirements
Export Agriculture	5.8%	11.8%
Domestic Agriculture	5.1%	9.9%
Other Primary	7.3%	11.6%
Food Industry	4.5%	13.0%
Petroleum Industry	89.9%	91.4%
Other Industry	26.3%	32.4%
Utilities	10.7%	21.7%
Construction	10.3%	22.1%
Commerce	0.5%	2.8%
Transport	12.9%	21.5%
Financial Services	0.9%	2.3%
Housing Ownership	0.5%	3.6%
Other Services	1.1%	3.7%

Notes:

- i. Calculation based upon the 1974 Banco Central input-output matrix (rpt. CEPAL 1983). The 38 sector matrix has here been collapsed into 13 sectors in order to illustrate sectoral import intensities.
- ii. "Import intensity" is the ratio of imports to gross output. The "direct and indirect import requirement" ratio is in relation to final output, and has been calculated using standard matrix algebra.

B9. Import Intensive Industries

	Import Intensity	Direct and Indirect Import Requirements	Share of Industrial Val. Add.	Share of Industrial Imports
Petroleum refining and related industries	89.9%	91.5%	0.9%	24.8%
Paper and paper products	59.2%	61.3%	0.9%	3.8%
Fabricated metal products (except machinery and transportation equipment)	57.0%	60.4%	3.7%	14.4%
Transport equipment	52.7%	55.2%	0.2%	0.6%
Electrical and electronic machinery and appliances	41.5%	45.4%	0.7%	1.5%
Chemicals and chemical products (other)	39.7%	45.4%	5.1%	10.7%
Chemicals and chemical products (industrial)	38.5%	45.9%	8.2%	15.6%
Machinery (except electrical)	35.3%	38.7%	0.5%	0.7%
Iron and steel basic industries	31.0%	34.3%	0.7%	0.8%
Total			20.9%	72.8%

Notes:

- i. For source and definitions, see previous table.
- ii. English nomenclature derived from United Nations (1989), on the basis of comparison with CEPAL (1983), Brundenius (1985) and MICE (1983a).

B10. Export intensity of manufacturing production: 1976
[Millions of *córdobas*]

	Gross Value of Production	Exports To CACM	Extra- Regional Exports	Total Export Intensity
Food	2,823	175	858	36.6%
Petroleum and related	533	13	0	2.5%
Other	3,056	553	186	24.2%
Total	6,412	741	1,045	27.8%

Note: Data from BCN (1978).

B11. Manufacturing Trade Deficit
(excluding petroleum refining and related industries)
[Millions of dollars]

	Manufactured Exports (except food)	Imported Inputs for Industry	Share attributed to sectors other than food	Imports attributed to sectors other than food	Manu. Trade Deficit (except food)
1970	39.5	61.0	86.3%	52.6	13.1
1971	41.4	62.1	85.3%	53.0	11.6
1972	53.0	67.5	86.0%	58.0	5.0
1973	61.8	97.1	87.3%	84.7	22.9
1974	96.6	175.5	88.9%	156.0	59.4
1975	78.6	142.4	85.9%	122.3	43.8
1976	107.4	156.4	86.5%	135.2	27.8
1977	124.8	212.3	87.2%	185.2	60.5
1978	127.3	181.0	86.6%	156.8	29.5
Trend growth:	17.4%	18.5%			22.7%

Notes:

- i. Data from BCN (1979).
- ii. A share of imported industrial inputs is attributed to non-food manufacturing using the formula: $XY/(1-X+XY)$, where X represents the non-food share of gross manufacturing output, calculated from BCN (1979), and Y represents the ratio between the import intensity (imports/gross output) of non-food and food manufacturing production. This ratio, calculated on the basis of the 1974 input-output matrix (see above), is approximately 5.9.

B12. Share of Central American Common Market (CACM) in 1976 non-agricultural exports
(Millions of dollars)

	Value	Share to CACM
Chemicals	49.1	96.2%
Textiles and leather products	21.3	66.8%
Wood products	14.7	23.8%
Paper products	0.1	100.0%
Non-metallic mineral products	4.8	100.0%
Basic metals	3.9	100.0%
Metal products, machinery and equipment	9.4	100.0%
Total	103.3	80.5%

Notes:

- i. Mineral exports of \$8.3 million are excluded, as information on the destination of exports is unavailable;
- ii. \$0.7 million of unspecified industrial exports are also omitted;
- iii. Export values are from BCN (1978); information on the destination of exports is from Brundenius (1985).

B13. Medium- and long-term external public debt

	Debt at Year End	Annual Growth	Private Bank Share	Debt/GDP
1955	10.7			
1960	21.7	15.2%		7.6%
1965	57.2	21.4%		11.6%
1970	174.8	25.0%	22.6%	25.7%
1971	212.9	21.8%	24.4%	28.9%
1972	255.1	19.8%	34.2%	34.6%
1973	346.7	35.9%	48.3%	40.1%
1974	502.7	45.0%	50.7%	38.2%
1975	644.0	28.1%	54.7%	46.0%
1976	680.6	5.7%	48.0%	40.7%
1977	873.8	28.4%	44.3%	42.9%
1978	961.3	10.0%	46.3%	50.6%
1978/71:	24.0%			
1970/60:	23.2%			

Source: BCN, Informe Anual, various years.

B14. Relation of capital goods imports to current account deficits
(Millions of dollars)

	Current Account Deficit	Capital Goods Imports	As % of Deficit
1960	7.57	17.54	231.7%
1961	3.26	18.76	575.5%
1962	9.73	28.14	289.2%
1963	10.40	32.98	317.1%
1964	9.17	42.74	466.1%
1965	22.00	51.94	236.1%
1966	49.12	58.69	119.5%
1967	64.88	61.16	94.3%
1968	41.86	49.75	118.8%
1969	36.73	57.30	156.0%
1970	38.11	60.21	158.0%
1971	42.70	60.28	141.2%
1972	-21.73	53.66	-246.9%
1973	65.10	94.74	145.5%
1974	256.78	186.14	72.5%
1975	184.00	146.67	79.7%
1976	38.69	143.47	370.8%
1977	182.00	224.76	123.5%
1978	25.08	139.05	554.4%
Total:	1065.45	1527.98	143.4%

Source: BCN (1979).

B15. GDP Growth and Investment Ratios

	Real GDP Growth	Gross Fixed Investment/ GDP		Real GDP Growth	Gross Fixed Investment/ GDP
1950		14.8%	1964	11.7%	17.5%
1951	5.7%	14.5%	1965	9.5%	18.8%
1952	19.9%	18.2%	1966	3.3%	20.9%
1953	2.5%	14.5%	1967	7.0%	18.9%
1954	9.7%	16.3%	1968	1.3%	15.6%
1955	6.5%	11.4%	1969	6.2%	16.9%
1956	1.6%	12.3%	1970	2.0%	16.2%
1957	6.6%	13.7%	1971	3.3%	15.5%
1958	-1.0%	10.4%	1972	2.2%	13.7%
1959	0.0%	9.5%	1973	6.4%	19.5%
1960	-2.4%	12.8%	1974	14.2%	23.5%
1961	7.5%	12.6%	1975	-0.2%	22.9%
1962	10.9%	15.2%	1976	5.2%	20.7%
1963	10.9%	15.3%	1977	8.4%	24.6%
Annual averages					
50-59	5.6%	13.6%			
60-69	7.5%	16.4%			
70-77	5.6%	19.6%			
(76-77)	6.8%	22.7%			

Source: SPP data base.

B16. Evolution of real salaries and real GDP (1960-1977)

	Average Real Salary (Industry)	Real GDP per capita		Average Real Salary (Industry)	Real GDP per capita
1960	100.0	100.0	1969	101.8	151.5
1961	100.8	104.5	1970	97.8	150.3
1962	105.2	112.0	1971	96.8	151.2
1963	109.7	121.0	1972	99.9	149.8
1964	110.9	131.7	1973	84.7	154.7
1965	105.7	141.6	1974	86.3	169.9
1966	97.9	142.7	1975	89.3	164.1
1967	96.2	149.1	1976	86.5	166.5
1968	96.1	146.7	1977	84.6	174.2

Sources: BCN (1979) and SPP data base.

C. Other tables

C1. Elements of the state complex established in the 1979-1981 period.

a) Monopolies (partial list)²

BANANIC (Empresa Nicaragüense del Banano): Banana export monopoly (Decree 135, 31-10-79).

CONDEMINA (Corporación Nicaragüense de Desarrollo Minero): mining monopoly (Decree 137, 02-11-79).

CORFOP (Corporación Forestal del Pueblo): forestry monopoly (Decree 410, 17-05-80).

ENABAS (Empresa Nicaragüense de Alimentos Básicos): basic grain import and export monopoly (Decree 82, 19-09-79).

ENAL (Empresa Nicaragüense de Algodón): cotton export monopoly (Decree 82, 19-09-79).

ENAZUCAR (Empresa Nicaragüense de Azúcar): sugar export monopoly (Decree 82, 19-09-79).

ENCAFE (Empresa Nicaragüense de Café): coffee export monopoly (Decree 82, 19-09-79).

ENCAR (Empresa Nicaragüense de la Carne): beef export monopoly (Decree 82, 19-09-79).

ENIA (Empresa Nicaragüense de Insumos Agropecuarios): import monopoly for all agricultural inputs (Decree 354, 28-03-80)³.

ENMAR (Empresa Nicaragüense de Productos del Mar): seafood export monopoly (Decree 82, 19-09-79).

INCEI Instituto de Comercio Exterior e Interior): monopoly on exports of coffee, cotton, sugar, seafood and other "traditional" exports⁴ (Decree 32, 06-08-79).

INISER Instituto Nicaragüense de Seguros y Reaseguros): insurance monopoly (Decree 107, 16-10-79).

Lotería Popular: lottery monopoly (Decree 632, 27-01-81).

MICE (Ministerio de Comercio Exterior): monopoly on such non-traditional exports as instant coffee, rum, certain chemical products, etc. (Decree 761, 19-07-81).

PETRONIC (Empresa Nicaragüense de Petróleo): petroleum import monopoly (Decree 135, 31-10-79).

²"Traditional" monopolies, such as electricity or phone services are not included.

³ENIA earlier held a state-sector monopoly. See below.

⁴These monopolies were later transferred to MICE.

[cont.]

SFN (Sistema Financiera Nacional): banking monopoly⁵.

b) Centralized State Bodies (partial list)⁶

AGROINRA (Agroindustrias de Reforma Agraria): state agro-industrial sector⁷.

COIP (Corporación Industrial del Pueblo): state industries, excluding agro-industry (Decree 597, 12-12-80)⁸.

CORADEP (Corporación de Radiodifusión del Pueblo): state radio stations (Decree 709, 25-04-81).

CORCOP (Corporación Comercial del Pueblo): state domestic trade activities (Decree 598, 12-12-80)⁹.

COTRAP (Corporación de Transporte del Pueblo): rail, water, and road transport services (Decree 423, 31-05-80)¹⁰.

ENIA (Empresa Nicaragüense de Insumos Agropecuarios): importer of agricultural inputs (Decree 82, 19-09-79).

Empresas de Reforma Agraria (various): state farms¹¹.

ENIMPORT (Empresa Nicaragüense de Importaciones): imports in general (Decree 271, 31-01-80).

ENIPREX (Empresa Nicaragüense de Promoción de Exportaciones): non-traditional exports (Decree 271, 31-01-80).

⁵The SFN directed various state banks, which tended to be assigned specialized tasks. Thus, the Banco de Crédito Popular specialized in loans to low-income sectors (Decree 335, 07-03-80); the Banco Inmobiliario specialized in mortgages (Decree 558, 25-10-80).

⁶These are bodies that have a monopoly on certain activities for the state sector only.

⁷AGROINRA was controlled by MIDINRA, the Ministry for Agricultural Development and Agrarian Reform.

⁸COIP was controlled by the Ministry of Industry.

⁹CORCOP was controlled by the Ministry for Internal Trade.

¹⁰Thus, COTRAP controlled the Empresa Nacional de Buses, the Empresa Nacional de Autobuses Inter-urbanos, the Empresa Nacional de Transporte de Carga, etc.

¹¹Control of these was vested in MIDINRA.

C2. Initial and revised estimates of 1980-1981 GDP growth

	Initial 1980	Revised 1980	Initial 1981	Revised 1981
GDP	10.0	4.6	8.5	5.4
Goods	0.8	-1.8	-1.7	6.4
Agriculture	-10.0	-19.1	2.2	9.5
Mining	49.2	-42.3	-16.0	7.5
Manufacturing	11.8	14.7	-5.5	3.0
Construction	117.2	152.6	-12.5	10.4
Basic Services	16.2	13.5	10.1	0.3
Electricity etc.	11.8	4.4	8.4	-11.0
Transport and communication	18.5	17.3	10.9	4.4
Other Services	18.7	12.6	7.8	5.0
Commerce and finance	16.3	14.2	10.5	5.3
Ownership of dwellings	0.0	5.3	5.0	4.7
Community, social, personal	26.3	14.8	5.8	4.0
Government services	29.4	10.9	4.1	5.1

Sources: For original estimates, ECLAC (1984). For revised estimates, Spoor (1987).

C3. 1980 industrial growth in priority and non-priority areas

	1979 Share of Industry	Growth Targets	Actual Growth
Priority areas	86.0%	21.0%	9.0%
Non-priority areas	14.0%	0.7%	32.9%
Total	100.0%	18.2%	12.3%

Notes:

- i. Actual growth data and shares of industry are calculated on the basis of ECLA (1981). Growth targets for priority areas and for all industry are calculated on the basis of MIPLAN (1980, 49,119).
- ii. As there is no explicit target for non-priority area growth, this is calculated as the residual of total industrial growth less priority area growth.

C4. External Trade, 1980-1981: Planned and actual

	1980	1981
Exports (FOB)		
Planned	524	680
Actual	451	500
% difference	-13.9%	-26.5%
Imports (FOB)		
Planned	700	865
Actual	803	897
% difference	14.7%	3.7%
Trade Deficit		
Planned	176	185
Actual	352	397
% difference	100.0%	114.6%

Sources: MIPLAN (1980) and (1981) for planning data, ECLAC (1982) for actual figures.

C5. Trade with the Central American Common Market

	Exports (FOB)	Imports (CIF)	Deficit
1977	134	164	30
1978	146	139	-7
1979	90	111	21
1980	75	301	226
1981	71	211	140

Source: MICE (1983b)

C6. Impact of policy choices on the 1980-1981 trade deficits

	1980	1981
Imports (CIF) - Exports (FOB)		
Planned	249	276
Actual	436	490
Difference	187	214
A.Consumer goods imports (CIF)		
Planned	175	160
Actual	258	229
Difference	83	69
B.Beef exports		
Planned	72	62
Actual	59	23
Difference	13	39
A+B	96	108
As % of total trade difference	51.3%	50.5%

Sources: Planning data from MIPLAN (1980) and (1981a); actual figures from ECLAC (1982).

C7. Official producer prices for beans and maize

	-In current <i>Córdoba</i> -		-----Deflated-----	
	Beans	Maize	Beans	Maize
77-78	136	60	100.0	100.0
78-79	110	45	77.5	72.3
79-80	180	60	74.5	56.6
80-81	270	97	89.5	73.6
81-82	320	100	86.1	61.3
82-83	350	130	77.1	65.3
83-84	390	180	64.6	68.0
84-85	400	240	44.1	60.4

Notes:

- i. 1978-1979 prices are from BCN (1979). Prices from 1979-80 to 1983-84 are from Medal (1985) and Spoor (1987). These two sources are consistent. The 1984-85 prices are from (B 25-04-84). The 1984-85 prices were modified in the middle of the agricultural cycle. See chapter 8.
- ii. Current prices are deflated by the CPI for December.

C8. Nominal and deflated average salaries: 1977-1984

	Nominal	Deflated
1977	1332.6	100.0
1978	1392.9	100.0
1979	1750.1	84.8
1980	2012.0	72.0
1981	2529.0	73.1
1982	2754.0	63.8
1983	3152.0	55.7
1984	4275.0	55.8

Source: SPP data base.

C9. Index of deflated rural minimum wages

1977	100.0
1978	95.7
1979	89.6
1980	80.2
1981	66.9
1982	53.6
1983	40.9
1984	49.0
1985	42.7

C10. Sectoral Distribution of Principal Investment Projects (1979-1985)

Agriculture	30.7%
Agro-industry	39.8%
Industry	7.2%
Energy	13.0%
Mining	2.6%
Forestry	5.1%
Fishing	1.7%
	100.0%

Source: Spoor (1987).

C11. Proportional mark-up of unofficial over official prices

	December 1982	December 1983
Rice	17.2%	122.4%
Beans	49.1%	186.0%
Cooking Oil	23.8%	53.7%
Salt	50.0%	50.0%
Sugar	n.a.	76.5%
Soap	-4.6%	114.9%
Eggs	8.0%	2.1%
Cheese	94.1%	28.9%
Chicken	33.7%	21.3%

Source: B 06-02-84.

**C12. Rates of exchange at year's end
(Córdobas per dollar)**

	Official	Parallel	Unofficial	Unofficial/ Parallel
1979	10	16.3	16.3	
1980	10	18.9	18.9	
1981	10	28.5	39.0	1.4
1982	10	28.5	80.0	2.8
1983	10	28.5	170.0	6.0
1984	10	28.5	450.0	15.8

Source: Spoor (1987, 30).

C13. Distribution of agricultural land by sector

	1978	1981	1982	1983	1984	1985	1986	1988
Individuals	100%	79%	75%	75%	73%	72%	71%	80%
> 350 hcs.	36%	18%	14%	14%	13%	11%	10%	8%
140 to 350 hcs.	16%	13%	13%	13%	13%	13%	12%	14%
35 to 140 hcs.	30%	30%	30%	30%	30%	30%	30%	28%
7 to 35 hcs.	15%	7%	7%	7%	7%	7%	7%	16%
< 7 hcs.	2%	1%	1%	2%	2%	2%	2%	2%
CCS		10%	10%	10%	10%	10%	10%	11%
Production Coop.		1%	2%	5%	8%	9%	11%	9%
State Farms		20%	23%	21%	19%	19%	18%	12%

Notes:

- i. Sources: Wheelock (1990); *Envío*, no.51, September 1985; B 16-07-87.
- ii. The CCS [Credit and Service Cooperatives] were groups of individual producers organized by the state for purposes of receiving bank credit and other services.

C14. Evolution of the SNOTS scale (December 1984=100)

	-----Nominal-----			CPI	-----Deflated-----			Fan
	Min.	Max.	Ave.		Min.	Max.	Ave.	
December 1984	100	100	100	100	100.0	100.0	100.0	8.8
February 1985	147	113	140	122	120.1	92.5	114.1	6.8
March 1985	176	136	168	138	128.1	98.8	121.7	6.8
May 1985	265	193	246	238	111.4	81.1	103.8	6.4
January 1986	418	389	467	461	90.7	84.5	101.4	8.2
March 1986	26	793	738	778	80.6	102.0	94.9	11.2
April 1987	1,253	1,143	1,163	6,086	20.6	18.8	19.1	8.0
June 1987	1,629	1,477	1,506	13,414	12.1	11.0	11.2	8.0
July 1987	2,524	2,287	2,333	20,511	12.3	11.2	11.4	8.0
August 1987	3,028	2,745	2,799	28,351	10.7	9.7	9.9	8.0
September 1987	3,634	3,294	3,359	29,503	12.3	11.2	11.4	8.0
December 1987	7,265	6,587	6,718	53,257	13.6	12.4	12.6	8.0
February 1988	29,412	50,200	32,562	109,728	26.8	45.7	29.7	15.1

Source: SPP data.

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¹Some introductory notes:

- a. Spanish language publishers tend to use "edition" numbers to refer to printings. Thus, I will count as new "editions" for purposes of giving the publication date, only those editions which are explicitly identified as having been revised.
- b. I have upon occasion included additional information in square brackets [], to clarify the nature of the work being cited. This is helpful, for example, to point out that H. Ortega (1987) is an FSLN party programme from 1977.

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