

State and Economy in Nicaragua¹

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A Mixed Economy in Transition

One of the main features of Nicaragua since 1979 has been the Sandinista commitment to a 'mixed economy' while retaining both political hegemony and the monopoly of armed force. This concept is officially seen as having three dimensions: the balance between state and private property in the corporate enterprise sector; the maintenance of a large petty commodity sector in almost all branches of the economy; and the establishment of non-aligned international trading relations [Miplan 1980; SPP 1987]. The apparently long-term character of this social construct makes Nicaragua distinct from many other experiences of the construction of socialism, although it is consistent with more recent reform initiatives [FitzGerald and Wuyts 1988].

Academic critique of the 'mixed economy', or more precisely of the relationship between the Sandinista state and Nicaraguan civil society as expressed through the market, has shifted ground. Early writing tended to dismiss the concept as little more than tactics at best and reformist rhetoric at worst, but recent debate has focused on the practical feasibility of the model. Weeks [1986:4] for instance, describes the mixed economy as a 'battlefield', and argues that 'the goal . . . of cooperation with domestic and foreign propertied interests . . . was not achieved, not even in the early days of the Revolution', but nonetheless concludes that [1986:59] 'the possibility of a transitory reconciliation of state and capital in the economic sphere cannot be excluded by abstract analysis. Theory in this case can point out the contradictory aspects of such an arrangement but not pass final judgement'.

Similarly, although Ruccio [1986:12] comes to the almost opposite conclusion that 'capitalist production — both outside and inside the state — seems to be strengthened, at least in the short run, by the expanded

¹ Thanks are due to my former students at the *Escuela Nacional de Formacion de Cuadros* for stimulating debates on this topic over the years. I must apologise for such extensive citation of my own work; but this seems to be the most effective way of saving space. This article covers only events up to the end of 1987: it is too soon to judge the impact of the monetary reform and *compactacion del estado* of February 1988, although the need for them should be clear from this article.

role of the state and planning under the Sandinistas', he argues that *other* structural changes (such as land reform and public investment) 'may lead to a future situation in which the position of the state in the Nicaraguan political economy can be radically transformed'.

It is clearly too early, in historical terms at least, to evaluate the feasibility of the Sandinista model — particularly in view of US attempts at economic and military destabilisation [ICJ 1986] — but it is possible to identify some key characteristics of the model and analyse its mutation since 1979. In this article, I shall try to show how the relation between the state and the market shifted in response to both war and economic problems; how the basis of the planning system changed from a 'dual economy' model to one based on the articulation of distinct forms of production; and how this articulation was undermined by the effects of the high level of resource extraction by the state.

The Foundations of the Mixed Economy

The concept of *economia mixta* had been worked out by the Sandinista leadership before 1979 [Wheelock 1983] as a probable characteristic of the transition period. Three factors appear to have been involved. First, the Nicaraguan economy was still at an intermediate stage of agro-industrial modernisation, where peasants and artisans still made up half the workforce [Table 2 below; FitzGerald 1987; Nuñez 1987] while most wage labour was only employed seasonally. In consequence, expropriation of capitalist firms would not directly involve the poor majority of the population, who would remain closely linked to petty commodity production outside the state sector. In other words, economic development in the long run would necessarily be based upon more than one form of production.

Second, the previous organisation of the economy had been such as to concentrate almost half of the corporate sector in the hands of the Somoza group itself, as either its own property or as corrupt parastatal enterprises, while the rest of private business was subordinated to it through the use of Somoza-controlled banks and agroprocessing facilities, permitting an extremely high rate of capital accumulation [Wheelock 1976]. In consequence,

Table 1

Ownership Structure of Production, 1983
(% contribution to GDP, by form of production)

<i>Form/Sector</i>	<i>State</i>	<i>Capitalist</i>	<i>Small Producers</i>	<i>Total</i>
Agro Exports	28	42	30	100
Domestic Consumption	19	15	66	100
Cattle	20	12	68	100
Industry	28	49	23	100
Other Material Production	90	5	5	100
Government	100	0	0	100
Commerce and Services	38	12	50	100
Total	40	29	31	100

Source: Baumeister and Neira (1986) p. 188.

Table 2

National Workforce by Class, 1984
(thousands)

	<i>State Sector</i>	<i>Private Sector</i>		<i>Sub-Total</i>	<i>Total EAP</i>
		<i>Formal</i>	<i>Informal</i>		
Bourgeoisie	—	22	—	22	22
Artisans and Peasants	—	—	258	258	258
Employees	91	41	—	41	132
Workers	102	91	—	91	193
Sub/Semi-proletarians	18	95	292	387	405
Total Classes	211	249	550	799	1010

Source: FitzGerald (1987) p.40.

limiting expropriation to the Somoza properties would not only be politically legitimate but would also grant control over the whole corporate sector, while leaving 'private' property intact. Capitalism, it was hoped, could be gradually reduced to an essentially managerial role at a guaranteed rate of profit.

Third, the debates on the Latin American left during the 1970s had led to a change in attitudes towards the 'orthodox' model of the transition to socialism [Fagen *et al.* 1986]. On the one hand, the need to build broad insurrectionary alliances beyond the proletariat itself had forced a reappraisal of the role of the peasantry, artisans and what subsequently became known as 'social movements'. On the other, the attempts to reform the existing socialist economies threw doubt upon the equation of state ownership with socialisation. Further, the economic isolation of Cuba pointed to

the dangers of delinking from regional markets.

Thus the essentially *tactical* motivation inferred by many contemporary observers — that of presenting a 'moderate' image to the West — was not a key factor, although neither was it an irrelevant consequence. Indeed, in this respect the maintenance of reasonably good relations with foreign firms [Austin and Ickis 1986] was probably more important. The 'Nicaraguan model' is very different from the Cuban: in part because both their respective economic structures (e.g. the importance of the peasantry) and their geopolitical situations are very different; but also because lessons had been learned during the intervening 20 years. Naturally the issue was hotly debated within the FSLN itself [Baumeister and Neira 1986], but the view outlined above rapidly became dominant, particularly from 1983 onwards.

Table 3

War Damage and Defence Expenditure 1980-87
(US\$ mn)

	1980	1981	1982	1983	1984	1985	1986	1987
War Damage:*								
Material Destruction	1	4	11	59	28	18	14	37
Production Losses	1	3	21	107	190	145	230	281
Total Damage	2	8	32	165	217	164	244	218
(Damage/Exports)	—	1%	7%	35%	50%	49%	90%	71%
Defence Expenditure:**								
Budgetary Allocation	130	159	182	278	310	384	401	465
(Allocation/GDP)	6%	7%	8%	12%	14%	18%	19%	21%

Source:

* extracted from ECLAC (1988) *Notas para el estudio de America Latina y El Caribe, 1987: Nicaragua* (Mexico City); Table 25, p. 63. The footnote reads 'This total does not include about US\$600 mn which, according to preliminary estimations, were caused by the trade embargo and the external credit restrictions'. In the original table, a sectoral breakdown is also given, which reveals that between 1980-87, agriculture suffered 43% of total damage, forestry 28% and construction 19%.

** Calculated from ECLAC (1988) Tables 3 and 23; and ECLAC *Surveys* for previous years. Data refer to the Central Government budget allocation, at 1980 prices, converted to US dollars at the 1980 exchange rate.

The major ownership transformations had already taken place by 1980: the nationalisation of the Somoza group properties gave the state about a fifth of all arable land, a half of agroprocessing, a third of manufacturing capacity, virtually all fishing, forestry, mass transport and construction, and the whole financial system. Foreign assets in mining and bananas were nationalised and compensation agreed. The resulting pattern of ownership (shown in Table 1) remained largely stable throughout the period we are discussing, except in the case of land tenure which, as we shall see, changed radically after 1983. As the table indicates, material production was divided almost equally between the state, the 'capitalist' sector (i.e. private firms of 10 employees or more), and the small or household producers. Given the size of the government and the nationalisation of the banks, the state accounted for about 40 per cent of GDP as a whole.

1980-83: The Dualist Model

The 1980-83 period was regarded by the new Sandinista regime as essentially one of reconstruction after the civil war, but this reconstruction was intended to redistribute resources towards the state and consumption towards the poor, while laying the foundations for a subsequent stage of industrialisation [Miplan 1980]. These objectives were understood to imply a considerable expansion of state activity in both the reproduction of the labour force (health,

education, nutrition and housing) and productive investment. Popular mobilisation for literacy campaigns, self-help housing, community health care etc. became one of the main characteristics of the Sandinista 'development model', and during this period defined a good part of the relationship between state and civil society [Nuñez 1987]. There is no doubt that — until the war intensified in 1984 — the real extent of basic needs satisfaction of the poorer half of the Nicaraguan population had improved substantially. Moreover, such social mobilisation effectively serves as a means of tapping local savings in the form of unpaid labour and reducing the cost of such social services to the state [FitzGerald 1988a].

State accumulation itself rose sharply after 1979, as Table 4 indicates, and private investment fell, mainly consisting since 1980 in small and medium farmers and some housing. From the start it was anticipated that the 'capitalist' sector would not invest, due both to the existence of considerable excess capacity and to a not unreasonable concern about future property rights. The aim was rather to encourage large private producers to recover and maintain traditional output levels by guaranteeing profits without too much concern for efficiency. In fact, reasonably stable *economic* relations were maintained with the business sector in most of the main production branches (such as coffee, rice and manufacturing) with some exceptions (cotton and beef) and more surprisingly, with foreign firms in refining, agrochemicals and tobacco [Dijkstra 1987].

Table 4

Sectoral Accumulation Balances, 1976-86
(% of GDP, annual average)

		1976-78	1981-83	1984-86
State Sector:	Investment	8.5	16.6	16.7
	Savings	2.6	-4.5	-8.3
	External Finance	3.3	13.4	9.7
	Resource Balance	-2.6	-7.7	-15.3
Non-State Sector:	Investment	10.7	5.0	3.4
	Savings	15.7	12.7	18.7
	External Finance	-2.4	—	—
	Resource Balance	2.6	7.7	15.3
National Economy:	Investment	19.2	21.6	20.1
	Savings	18.3	8.2	10.4
	External Finance	0.9	13.4	9.7
	Resource Balance*	—	—	—

Source: FitzGerald (1986) Table 8.2.

* By definition the overall resource balance is zero for the national economy, as external finance is already included.

Negotiations between the state and private producers [Baumeister and Neira 1986] were conducted at the *branch* level, and largely confined to issues such as prices and credits, which the government consistently settled on generous terms. The desired effect was to separate economic from political power and to diffuse the latter as much as possible; but at the cost of an automatic guarantee of profit margins (in local currency) without risk or the need to use 'own' funds — much of which had left Nicaragua by 1980 anyway — and declining efficiency. This relationship clearly prevented output from falling during a process of rapid transformation of social relationships; and was underpinned by the pre-1984 limitation of the land reform to the Somoza lands, despite peasant pressure for a more extensive redistribution [Kaimowitz 1988]. Nonetheless, even though the *title* to property was maintained, the freedom to dispose of it, invest freely, export capital, control the labour force etc. was progressively limited in the attempt to convert larger producers into well-paid administrators.

The high rate of state accumulation was designed to give the state sector a dominant technological position in the mixed economy as well as control over the areas of future expansion such as agribusiness, energy and natural resource exports; so that the private capitalist sector would become steadily less important without actually being expropriated [Wheelock 1983]. Moreover, it was believed that in this way the 'semi-proletariat' (i.e. the seasonal and casual workers who

make up 40 per cent of the population) could be absorbed into regular state employment and the 'true' proletariat built up as a majority class. This strategy had rather different implications for the rest of the non-state sector: it was felt that small-scale producers had much lower productivity and efficiency than large units enjoying economies of scale in both agriculture and industry. Thus, few resources were allocated to small producers in the form of inputs and credit, let alone capital equipment.

The planning strategy during the 1980-83 period was thus based on an essentially *dualist* vision where the 'modern' sector accumulates and absorbs the 'traditional' sector. This was complemented by the attempt to eliminate private commerce: in rural areas by establishing a state monopoly over 'peasant exchange' of foodstuffs for industrial products (as well as services such as credit, transport, warehousing and even mechanisation); and in urban areas by establishing a chain of state supermarkets and a rationing system based on local community organisations and factory commissaries. Official price controls were maintained in order to keep real wages under the strict central control of nominal wage-rates.

By 1983 the shortcomings of this planning model had become apparent: the state sector was generating a steadily greater inflationary deficit [Table 4; FitzGerald 1988b]; production was not advancing beyond its 1978 levels; food supplies to the towns declined as the terms of trade turned against the peasantry; and the urban

Table 5 Nicaragua: Structure of Medium and Long-term Concessionary Loans, Credits and Donations*

	1981-83		1984-86	
	<i>mn \$</i>	%	<i>mn \$</i>	%
Western Europe, Canada and EEC				
Credits and loans	185.6		189.7	
Donations	69.4		112.2	
NGO aid	109.0		109.0	
Subtotal	364.0	18.6	410.9	23.2
Multilateral				
Credits and loans	245.9		—	
Donations	22.7		30.1	
Subtotal	268.6	13.7	30.1	1.7
Socialist				
Credits and loans	529.1		1,003.6	
Donations	72.2		184.6	
Subtotal	601.3	30.7	1,188.2	67.2
Others				
Credits and loans	694.3		121.0	
Donations	18.0		7.7	
NGO aid	11.0		11.0	
Subtotal	723.3	37.0	139.7	7.9
Total				
Credits and loans	1,654.9		1,314.3	
Donations	182.3		334.6	
NGO	120.0		120.0	
Grand total	1,957.2	100.0	1,768.9	100.0

Source: FitzGerald (1988b), Table 8.14.

* Includes multilateral, bilateral and NGO sources.

'informal' sector thrived on parallel markets, draining labour away from the state enterprises. In fact, the internal debate on fundamental changes in economic strategy was well advanced (tending towards a more financially balanced state sector properly articulated with small producers) but the military situation was about to alter dramatically.

1984-87: The Attempt at Rearticulation

From 1984 onwards it became clear that the destabilisation of the Nicaraguan economy had become a major foreign policy goal of the US administration, and a leading motive for supporting

the *contra*. Attacks on economic targets had begun as early as 1981 [ICJ 1986] but it was only from late 1983 (see Table 3) that the war began seriously to affect production and force changes in economic strategy. Between 1984 and 1987 the average damage in terms of destroyed assets and output lost was equivalent to some 40 per cent of potential annual exports, which exacerbated the already difficult balance of payments situation (implying a greater reliance on foreign finance — see Tables 4 and 5). It also sharply reduced available domestic resources so that consumption levels fell considerably [FitzGerald 1988b].

These paramilitary actions were supplemented by the mining of ports and the imposition of a trade embargo by the US in 1985, who also put pressure on multilateral and bilateral sources of aid in the West [FitzGerald 1986]. The consequence was an increased reliance on the CMEA as the main source of financial assistance (Table 5), its share rising from 31 per cent in 1981-83 to 67 per cent in 1984-86.

What is more, an increasing proportion of disposable resources had to be devoted to defence and security expenditure, which rose from six per cent of GDP in 1980 to 21 per cent in 1987 and came to account for half the central government budget. Despite increased tax pressure and a decline in real non-military expenditure, much of the resultant deficit was financed by monetary emission; the excess demand generated thereby leading to even higher rates of inflation [FitzGerald 1988b].

Logically, a war economy might be expected to involve greater central control over production and distribution but this is not what happened. From 1984 onwards, the agrarian reform programme changed direction [Kaimowitz 1988]. First, the emphasis shifted to land *redistribution*: the area under large private estates (i.e. those greater than 350 hectares, which had accounted for 36 per cent of farmed land in 1978) declined from 18 per cent in 1983 to 10 per cent in 1987; and even more surprisingly, the proportion of land held by state farms fell from 19 per cent to 13 per cent. The main beneficiaries were family farmers grouped in various kinds of cooperatives. Second, the role of state enterprises was changed so as to include technical support for small producers in their area of influence. Third, price and credit policy was redefined in support of peasant producers by decontrolling food marketing and encouraging small-scale investment, which allowed the internal terms of trade to improve sharply in their favour.

This shift actually *widened* the civil economy in the sense of reducing administrative controls over the countryside, although this was mainly to the benefit of small farmers, as large producers were still subject to state marketing and tighter credit controls. This major shift in policy was obviously related to the need to consolidate counter-insurgent support, but it had been

planned earlier [FitzGerald 1985] in order to improve urban food supply and overcome the shortcomings of state enterprises. The intention was to recover effective state control over the rural economy by setting realistic price levels (and thus eliminating parallel markets), building up supportive producer organisations, and concentrating on the use of key 'levers' such as banking, agro-processing and foreign trade to implement plans.

The post-1983 shift was also evident in the rest of the economy; although in most cases it was based on the reorganisation of the non-state sector rather than a reduction in the state itself. In industry, small producers were organised into cooperatives and (looser) branch associations, while their input requirements were handled by specialised distributors established by the Ministry of Industry. An increasing number of bus routes were turned over to drivers' cooperatives. Artisanal miners and fishermen were organised in cooperatives. As a result, the cooperative sector in the economy as a whole, although still at an early stage of development, came to assume a role in 1983-87 as great as that of the 'capitalist' sector in the 1980-83 period [FitzGerald and Chamorro 1987]. Commercial policy was also transformed by sub-contracting distribution in both rural and urban areas to small retailers grouped in area associations, distributing goods from state wholesalers at fixed margins.

This new approach represented a process of gradual reorganisation of the private sector of the mixed economy with the aim of generating greater production and more effective distribution, but under indirect state control by effectively sub-contracting organised small producers. In other words, the new planning model was by now based on the *articulation* of the two forms of production which were understood to be fundamental to the transition, rather than pursuing the previous dualist strategy [Tirado 1986].

The Viability of the Mixed Economy

In this brief article, I have attempted to analyse the nature of the mixed economy as a strategic concept in Nicaragua and the major shift in this model that has taken place. That such a shift should take place in the midst of a war might seem surprising, and even more so in view of the fact that most external support came from CMEA countries. Nonetheless, there were at least three good reasons for this. First, there was the obvious need to maintain the minimal economic performance necessary for survival under very difficult circumstances. Second, there was an evident desire to consolidate support for the regime among peasants and artisans. Third, most socialist countries (with the notable exception of Cuba) have been through a radical reappraisal of the role of markets within their own planning systems.

It is extremely difficult, if not impossible, to judge whether this new model is any more viable than the previous one until the war comes to an end. In 1984-87 the internal resource deficit of the state sector (see Table 4) actually increased from 8 per cent to 15 per cent of GDP, with serious inflationary consequences. These can best be interpreted as the result of conflicts between different groups in civil society (including capitalists, workers and small producers etc.) each trying to 'pass on' the effects of the absorption by the state of scarce resources. This deficit was mainly the result of defence expenditure, of course, but it also arose from the still excessive rate of state accumulation and the system of price support to exporters. As these latter phenomena were the logical consequence of the original formulation of the mixed economy model, their resolution would require not just financial austerity but a redefinition of the model itself.

Meanwhile, the excess demand in the economy and price expectations reinforced the inflationary spiral, which also sustained parallel markets and the speculative elements of the 'informal' sector, culminating in serious labour shortages and declining productivity in the state sector [FitzGerald 1988b]. The most serious consequence of this imbalance, however, was the disarticulation of the mixed economy because the state could not maintain full control over the indirect financial mechanisms (prices, credit, wages etc.) which were to replace the putative administrative controls. In other words, the effective articulation of the various forms of production which make up the mixed economy requires extremely tight macroeconomic policy.

This does not of course mean an orthodox stabilisation policy; on the contrary, it implies that the state should not itself assume the entire burden of accumulation and basic needs provision, but rather that these should be undertaken by cooperatives and communities as part of the task of reconstructing a civil society in transition.

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