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Characteristics of a New Economic Model

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Characteristics of a New Economic Model

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INTRODUCTION

In the first half of the 1980s the U.S. debate about Central America was often inflamed by widely varying perceptions about the direction of Nicaraguan social and economic policies. The Reagan administration, for example, repeatedly asserted that Nicaragua had become a clone of Soviet Marxism-Leninism, tempered perhaps by tampering in Cuban laboratories.¹ This impression of Nicaragua was fortified at times by the rhetoric of the Sandinista government. Moreover, the modes of historical analysis and political thought most frequently encountered in contemporary Nicaragua do reflect the profound influence of Marxist thought in pre-1979 intellectual circles.

Most observers, however, including U.S. embassy personnel in Managua when speaking not for attribution, scoff at the notion of Nicaragua as a simple rerun of the Cuban experience. Scholars of the Cuban revolution and those familiar with other socialist and non-socialist developments in the Western Hemisphere have been quick to note the differences between Nicaragua and Cuba, both in declared policy and in actual practice. Those studying the Nicaraguan experience itself point to the non-Marxist origins of and the rationale for many of the economic policies implemented during the first years of the Sandinista regime.² Indeed, the importance of private capitalist production in Nicaragua's critical export sector, the evolving nature of Nicaraguan agrarian reform, the stimulus given to private-sector production by the Sandinista government (often at the cost of virulent criticism from its most radical supporters), and the courting of foreign private investment, for example, hardly fit with a simplistic view of the Nicaraguan economic experiment as typically socialist.

Characterizing the nature of revolutionary Nicaragua thus remains a difficult intellectual task. On the one hand, we must acknowledge that the Nicaraguan experience is by definition unique, since both the anti-Somoza insurrection and its aftermath were attributable to unique social and political forces. On the other hand, examining the histories of archetypically socialist countries such as the Soviet Union and the Peoples Republic of China can bring out certain criteria that will allow us to assess the socialist nature of the Nicaraguan transformation. And comparing Nicaragua with other attempts in the Western Hemisphere to turn away from traditional capitalism, particularly the social experiments in Cuba since 1959 and in Jamaica under Michael Manley, can help us locate the Nicaraguan development strategy within a spectrum of other countries' responses to dissatisfaction with traditional capitalist development paths.

In making these comparisons, we do not discuss whether Nicaragua should incorporate the policies employed by actually existing socialist or various transitional societies. Rather, we are simply trying to establish reference points by which to gain insight into the problems and possibilities in present-day Nicaragua. Certain inherent limitations, however, apply to this type of comparative analysis. First, even if the architects of the new Nicaragua had intended to create, in some form, "another Cuba," the geopolitical realities of a bipolar world may have led them to restrain their public pronouncements. Second, Nicaraguan economic policies were forged in a crucible of U.S. aggression that often seemed designed to destroy the emerging economic structure whatever its origins and tendencies. The reaction to this aggression has likely led Nicaragua to adopt certain policies that may not have

been part of the Sandinistas' original development strategy, a point we return to below.

In this essay, then, we characterize the evolution of the Nicaraguan experiment, making reference both to other transitional experiences and to the unique characteristics of the Nicaraguan model. We develop a set of criteria by which to characterize a transition as socialist, drawing these criteria from a brief comparison of the experiences of the Soviet Union and the People's Republic of China (especially during their periods of transition) and from an examination of the "third path" of "democratic socialism" attempted in Jamaica in the 1970s. We then contrast the Nicaraguan experience with comparable periods in what might be viewed as the contemporary application in the Western Hemisphere of the archetypal Marxist-Leninist or orthodox socialist model: the Cuban revolution. We close by raising questions about the possibilities for self-sustaining economic progress in Nicaragua and by noting the challenge that the Nicaraguan model presents for U.S. policy.

SOME INITIAL CRITERIA FROM ARCHETYPAL SOCIALISM:

THE SOVIET AND CHINESE MODELS

Whether because of historical precedence or sheer magnitude, the Soviet Union and China are often taken as the archetypes against which other socialist experiments must be measured. Jameson and Wilber, for instance, propose an implicit typology of socialism in developing countries based on similarities to and dissimilarities from these classic examples.³ Drawing upon the experiences of China and the Soviet Union, they suggest a set of "central questions which will appear in any socialist development pattern": (1) the nature of the initial seizure of power, (2) the changes wrought on the preexisting society to

create preconditions for socialism, (3) the development strategy then enacted, (4) the nature of organizations and institutions subsequently erected, and (5) the specific role of the state. Reviewing the history of the socialist archetypes with respect to these questions, they argue, helps define both a range of policies that one should expect in new socialist societies and a set of central problem areas that must be addressed by any socialist model.⁴

FitzGerald has proposed a separate set of overlapping problems facing small peripheral societies in the process of transition from a historically inherited situation of capitalist underdevelopment. He calls attention to seven concrete problems: articulation of different forms of production, reinsertion into the international division of labor, labor and distribution, price formation and the appropriation of surplus, macroeconomic management and planning, accumulation and economic development, and the defense of the transition itself.⁵

We draw upon these authors, as well as others, to develop several criteria for evaluating the socialist character of the society that has been created (where there has been time for consolidation), the society toward which a nation may be moving, and the transitional policies that may have been implemented to move it in that direction.⁶ Like Jameson and Wilber, we begin by setting forth six criteria based upon various characteristics of the socialist transition in the Soviet Union and China. We return to these criteria later when we evaluate the Nicaraguan experience since 1979. We begin with:

1. Initial policies criterion. The nature of the immediate changes implemented to bring about a transition toward socialism provides a first test of the intent and direction of ultimate change. Changes are more socialistic to the extent that the new

regime immediately and dramatically reduces or eliminates private ownership, expands collective or state ownership, and consolidates that control through changes in the supporting financial and management institutions.

There were similarities in the initial actions of the revolutionary states of the Soviet Union and China which indicated that the new leadership hoped to create the preconditions for socialist transition; these similarities are all the more striking because the conditions the two governments first encountered were dramatically different. In both instances, the initial policy package included rapid elimination of the economic role of foreign capitalists and steps toward the collectivization of landed estates and nationalization of industries. In terms of FitzGerald's concern about how the revolutionary state deals with the coexistence of differing forms of production, we would suggest that, in both China and the Soviet Union, old capitalist forms of production were quickly eliminated, even before alternative socialist forms had been clearly put in place.

2. Labor process and basic needs criterion. One way to evaluate the socialist character of state policies is to examine any changes in the organization of the labor process and in the provision of wage goods and other basic services. For the underdeveloped capitalist economy on the periphery, the key questions include: How does the new society replace the economic pressures and institutionalized violence that accompanied primitive accumulation? How does it provide for improvements in the fulfillment of basic needs? How does it deal with the tension between the propensity for work intensity

and production to decline and the expectation of immediate improvements in the standard of living? ⁷

Both China and the Soviet Union paid significant early attention to improving education, health, and housing services. The principal focus, however, soon shifted to the processes of growth and accumulation. Both societies have been criticized on the grounds that this shift in focus toward aggregate growth drew attention away from the earlier goals of increasing consumption and enhancing workers' participation in the labor process.

3. Price-setting and planning criterion. Controls on prices and the implementation of planning to replace price signals is another feature associated with socialist models. Here we must investigate what new price-setting mechanisms and other institutional characteristics are established for fundamental resource allocations. Are various markets allowed a role, or are they replaced by either decentralized planning mechanisms or central planning? How is the relationship between domestic prices and international prices---especially relevant in small, open, peripheral contemporary economies---managed and maintained?

Although China maintained a higher degree of decentralization in its planning structure, the experiences of both China and the Soviet Union did include centralized price-setting and the planned management of output. As FitzGerald notes, the task of coordinating mixed forms of production during transitional periods may require preservation of market-based transactions, particularly between different modes or forms of production;⁸ the minimizing of

market-based price signals in the Soviet and Chinese experiences may partly reflect the rapidly emerging dominance of the socialist mode of production.

4. External policies criterion. External economic policies, including relationships to international finance and the international division of labor, may serve to distinguish not only among varieties of socialist experiences but also between socialist experiences and state capitalist experiences; nations in the latter category, for example, generally maintain extensive connections with international capitalism. In examining external policies, we should ask: To what extent does the society "delink" itself (in the words of Diaz Alejandro)⁹ or otherwise turn inward, rather than outward, in its development strategies? To what extent will international financial assistance be sought and international trade be maintained? How will the nation choose to align itself among international blocs?

Because the character of international institutions and the functioning of the international economy in the 1980s are very different from what they were at the time of the Soviet or the Chinese revolution, these previous experiences may be less relevant for the Nicaraguan case. Indeed, the classic autarchic strategy pursued by China, first after 1949, then more completely after the break from the Soviet Union, may be impossible in Nicaragua due to both its relatively small size and the historic limitations on domestic production created by previous colonialism. Even in contemporary socialist countries, however, the questions of limiting, controlling, and taking advantage of the international division of labor remain important policy concerns.

5. Broader "role of the state" criterion. The extent of the government's involvement in internal development strategies--- including the degree of the state's power in the economy, the levels of worker self-management, and the space left for the capitalist sector (if it continues to function)---is a particularly knotty dilemma for socialist societies. In evaluating whether a society is socialist, we might ask: How extensive has the role of the state become? What specific roles does it play? What techniques, what goals, what instruments are employed? What institutions function outside the state and how do they function?

The archetypal socialist models of the Soviet Union and China are marked by a significant enhancement of the state's responsibilities for short-run macroeconomic management and long-run development, as well as by a direct state role in production itself. The preeminent role of the state in the Chinese and Soviet experiences has been criticized as bureaucratic authoritarianism by Bahro¹⁰ and as little more than state capitalism by Cleaver.¹¹ Distinguishing the socialist state and socialist development from the varieties of state capitalism found in contemporary Mexico or Brazil has also been a topic of importance to contemporary socialists. Obviously, an extensive state role is not enough to characterize a development path as socialist; we must also examine, for example, the new roles of working-class organizations as well as the various other criteria we are developing here. Nonetheless, socialism has usually been associated with expansion of state property and state power.

6. Counterrevolutionary reaction criterion. The history of the need for defense of the transition itself suggests an

additional, ironic criterion: that the degree of socialism (or at least the historical and institutional distance from the prevailing global capitalist alternative) is evidenced by the extent to which the new society needs to be defended against economic and military aggression. It follows, then, that new policies are restricted by, and economic performance is affected by, the need to defend the revolution against counterrevolution.

The October Revolution led to civil war and external aggression, both of which overshadowed the initial development of the early Soviet model. The total defeat of the Kuomintang left China relatively free of serious external military aggression in the formative years of its revolutionary regime, but international economic isolation and aggression dictated some of its early inward orientation. Virtually every Third World nation that has turned toward a more socialistic development strategy has experienced both military and economic pressures to stem or limit the transition. In evaluating a country's choices of policy and social direction, we must not only recognize the need for self-defense but also reflect on the impact of such self-defense on the possibilities for successful development. Nicaragua would seem to be no exception to this general pattern.

ADDITIONAL CRITERIA: CLASS AND DEMOCRACY

Class Orientation

In establishing the above criteria for evaluating alternative socialist modes of organization we have for the most part followed previous authors. We

have, however, excluded Jameson and Wilber's suggestion that the form in which a government took power is important in determining the socialist character of a society. Both the Soviet and the Chinese experiences did involve tumultuous revolutions and extraconstitutional processes. Nonetheless, revolutions, coups, and barracks revolts are also common modes of taking power in capitalist countries. At the same time, the electoral, nonviolent accession of Manley in Jamaica and of Allende in Chile does not disqualify those transitions as socialist; certainly the method of coming to power did little to lessen counterrevolutionary attacks against them.

That power seizure and electoral successes both produced governments we might label as socialist suggests that there is one criterion not dealt with directly by Jameson and Wilber or FitzGerald: the class criterion. From their origins in classical Marxist analysis, both the Soviet and the Chinese experiences represent revolutionary change designed to benefit the working class, the peasantry, and allied classes. The choices necessitated by a number of the criteria above---the decision, for example, to expropriate capitalist property or to involve the state in the provision of basic commodities---follow from a focus upon the needs of oppressed peoples within a distinctly class-based and class-divided society. The difference between the extraconstitutional processes of the militarily based "revolutions" in Brazil, Peru, and South Korea and those that characterized China and Cuba, for example, is that the latter revolutions sought to put previously dispossessed social groups in power. Similarly, the distinction between the state's role in socialism and its role in state capitalism in the Third World is largely linked to the groups for whom the state is acting. As shown below, the Nicaraguan experiment, despite other differences from socialist archetypes, is intended to

benefit workers and peasants. A unique feature of the first years of Sandinista rule, however, was the way the Nicaraguan revolution attempted to maintain a broad multiclass alliance while pursuing the commitment to certain specific classes. We return to this point below.

Democratic Process: The Jamaican Road

A further criterion for evaluating socialism emerges from the experience of Jamaica under Prime Minister Michael Manley and his People's National Party (PNP). In his personal retrospective on eight years in power as a "democratic socialist," Manley tells how the search for a political program led the PNP to forge a new developmental strategy between two contemporary possibilities which he saw as diametrically opposed: market capitalism and state-dominated socialism.¹² Such a "third path" was also attempted in Chile under Allende, in Portugal from 1974 to 1976, in Guyana after 1966, and in Tanzania and Angola; we focus on the Jamaican experience as an alternative that may have suggested various policies to the Sandinista Front in Nicaragua partly because it occurred during the formative years of the Sandinista movement and partly because Jamaica, like Nicaragua, had to learn to deal with the reaction of the United States to its experiment.

In developing the argument for a "third path," Manley suggested first that Jamaica in the early 1970s had inherited the fundamental characteristics of classical colonies. In his view, no attempt had ever been made to produce what was needed for Jamaica, only what was needed by someone else outside Jamaica. Moreover, trade involved not the careful exchange of relative surpluses, but rather the importation of all that was needed and the export of all that was

produced. Finally, the surplus that might have been used to increase local production was consistently exported as profits.¹³

One solution to Jamaica's problems was to adopt the model of Puerto Rico, a model that stressed the development of a manufacturing sector and relied upon foreign capital and technology. Manley felt, however, that Jamaica had already been applying the Puerto Rico model since the Norman Manley government of the 1950s. Bauxite and aluminum investments, production, and exports grew dramatically, but so did imports of the raw material and intermediate inputs needed for production. Thus, by 1968

behind the glittering indicators of success lay stark facts.

Unemployment was increasing. Social services reflected little improvement. The degree of economic dependence was actually increasing rather than decreasing. Finally, the traditional problem of exporting surplus to foreign owners remained unchanged because new industries were also foreign.¹⁴

An alternative model open to Jamaica was that of Cuba, a country that had attempted to eliminate the impoverishing neocolonial system by nationalizing all foreign capital, diversifying production to fulfill domestic needs, and stimulating industrialization on the basis of the newly nationalized profits of sugar exports. In Cuba, the fundamental social problems of concern to Manley--- employment, health care, and education---had been addressed directly and successfully by the state. While noting these accomplishments, Manley felt uncomfortable with Cuba's political system and lamented the lack of political rights for those "outside of the revolution."¹⁵ He argued instead for: "another path, a third path, a Jamaican way rooted in our political experience and

values, capable of providing an economic base to our political independence and capable of some measure of social justice for the people."¹⁶

Manley's critique of the Cuban experience suggests an additional criterion for evaluating a society in transition: the democratic process criterion. Manley's notions of democratic process were, in large part, a reflection of the parliamentary system Jamaica had adopted from the advanced capitalist countries, particularly England, and he failed to recognize grass roots participation in Cuban decision-making processes or to distinguish between political processes that reflected the initial direction of the revolution and the social controls forced on Cuba by external aggression. Nonetheless, Manley was critical of the Cuban experience in that his notion of democratic process required not only that the citizenry actively participate in crucial decisions about the transition but also that some political space be allowed for a viable opposition. Whether his criterion reflects a luxury available primarily to governments that come to power by electoral means and within relatively well-established traditional electoral systems is less important than the fact that there exist many others for which this democratic process criterion is also important.

When Manley's PNP was swept into office in 1972, the new government's policies were substantially less dramatic than might have been expected from what was billed as a deliberate attempt to create some form of "democratic socialism." Rather than expropriate the foreign-dominated bauxite companies, Manley created a financial surplus for the state by sharply increasing the severance taxes on their production. While the state itself grew only to the extent that it absorbed bankrupt firms and expanded fundamental services,¹⁷ Manley's government extended its economic role by introducing price controls on

wage goods, increasing subsidies in order to make many basic goods more widely available, and implementing import controls to save available foreign exchange for use on essential commodities. Health and education programs were also enlarged, often with the aid of Cuban teachers and medical personnel.

As time went on, however, opposition to the new policies by foreign investors and lenders, the International Monetary Fund (IMF), and the foreign-dominated raw materials industries caused a series of financial crises in the external sector. These exchange problems, and the intervention of the IMF, led to the repeal of many of the bauxite export taxes and some of the import and price controls. Less able to provide for the basic needs of his constituency, Manley lost his political support. In 1980, the collective influence of the opposition press, deteriorating domestic and international economic conditions, and overt support by the U.S. government for his electoral opponent, Edward Seaga, brought the entire experiment to an end.

The Jamaican experience, and the equally significant experience of Allende in Chile, suggested that meeting the democratic process criterion (at least as specified by Manley) might undermine the ability to bring about real structural transformation of the economy, partly because the criterion allowed counter-revolutionary or antisocialist elements wide latitude to sabotage economic and social change. For the Sandinistas, this possibility must have increased interest in the more dramatic and less pluralistic paths followed by the Soviet Union, China, and, in this hemisphere, Cuba.

NICARAGUA AND THE EXPERIENCE OF CUBA

We now use the criteria developed from the Chinese and Soviet experiences as well as from the Jamaican "third path" to contrast the emerging Nicaraguan

society and economy with that of Cuba, the country with which Nicaragua is most often compared in the popular press. Insofar as possible, we attempt to contrast the first seven years of post-insurrection Nicaragua (1979-1986) with a similar time span in Cuba. As we shall see, the differences between the two countries are sometimes striking.

Initial Policies

After the revolutionary triumph in 1959, Cuba quickly nationalized virtually all foreign capital and all foreign landholdings; export agriculture, especially sugar production, was the main target in a deliberate attempt to finance social programs from the surplus generated in that foreign-oriented sector. By the mid-1960s two waves of agrarian reform had washed across Cuba, and two-thirds of agriculture had been transformed into state-run farms or state-controlled cooperatives. The vast majority of production and nearly all employment were state-controlled, with most basic commodities distributed through a complex rationing system. As Cuba sought to institute East European-style centralized planning, markets played a very small role in determining prices, production levels, labor allocation, and a host of other fundamental economic variables.¹⁸

In Nicaragua, in contrast, seven years after the insurrection major multinational firms continue to function, both independently and in mixed enterprises with the government. Most prominent among them are Exxon, Royal Dutch Shell, and Texaco (petroleum refining and production of derivatives for sale throughout Central America); British-American Tobacco (cigarette manufacture for local consumption and export to Europe); and Pan American (hotels and motels). The list also includes nearly a hundred other major

multinationals that provide substantial quantities of new computer equipment (IBM/Mexico), private and public accounting services (Price, Waterhouse), and training in public administration (Harvard University).

In addition, export agriculture in Nicaragua has remained predominantly in private hands (to the dismay of some early Soviet commentators as well as some observers on the Nicaraguan left).¹⁹ Instead of nationalization and collectivization of all export production, Nicaragua chose to nationalize the trading of exports, negotiating prices of inputs and harvests with capitalist producers in a contentious process that was often mistaken outside Nicaragua for simple private sector complaints about the revolutionary government. This approach reflected a conscious attempt to stimulate accumulation by using surpluses realized in international trade. The strategy was accompanied, however, by a variety of political problems, particularly when the need to placate the capitalist agricultural sector with special treatment and maintain downward pressures on agricultural wages clashed with the interests of the worker and peasant base of the Sandinista Front (FSLN).

Agrarian reform in revolutionary Nicaragua was also dramatically different from that in Cuba. By the mid-1980s, nearly a third of the total land affected had been distributed to cooperatives and individuals with private, irrevocable titles, and by 1985 the vast majority of expropriated land was being distributed to small producers and cooperatives rather than being converted into state farms. Moreover, the participation of the Nicaraguan peasantry in the design and implementation of agrarian reform was unusually active by comparison with the role of peasants in other socialist (and nonsocialist) experiences, a feature consistent with the democracy criterion suggested by Manley.²⁰ A final difference with archetypically socialist land reforms was

the role reserved for large private estates, a role explicitly guaranteed by provisions in the 1981 Agrarian Reform Law stating that effectively used land could not be expropriated, no matter how large the holdings. Although peasant unrest in 1985 did lead the Sandinista government to expropriate land near Masaya (including some that belonged to an important leader of the internal civilian opposition) and to authorize, in January 1986, the further expropriation of land "for public use or social interest," the large capitalist landholders retained an importance in the accumulation process unusual for a "socialist" agrarian reform.

The Labor Process and Basic Needs

By the mid-1960s the Cuban labor market had been radically transformed. Most job assignments were made through government agencies as part a process supposedly designed to rationalize the use of a work force whose employment was guaranteed. The onus of responsibility for finding employment had thus been shifted from the individual worker to the state, and open unemployment had been substantially reduced.

In the Nicaragua of the mid-1980s open unemployment was in excess of 20 percent in urban areas. The state had made no attempt to take direct responsibility for providing employment to a majority of the population. Labor markets had not been restricted and it remained the individual worker's responsibility to find a job capable of providing for his or her sustenance.

Nicaragua had, however, developed a series of programs that reflected a commitment to fulfill people's basic needs. The well-documented literacy crusade, a series of health mobilizations, establishment of the universal right to free health care, and rapid expansion of educational opportunities and

enrollments all bear witness to this commitment, especially since these policies were established in conditions of considerable economic duress.²¹ This, of course, mirrors Cuba's own rapid expansion of health care and education in the earliest years of the revolutionary regime.

While Nicaragua avoided excessive intervention in labor markets, it did intervene in product markets by establishing some price controls and rationing systems. Initiated in early 1980, the rationing was designed (1) to protect the standard of living of the impoverished majority as the country underwent the severe macroeconomic adjustment required by the devastation that followed the insurrection and by the world economic crisis of 1980-1983, and (2) to serve as a redistributive measure to raise the effective standard of living of the poor majority. Although rationed products were generally also available at unsubsidized prices in the marketplace and in food stores, by the mid-1980s Nicaragua was suffering severe shortages of many goods abundantly available to middle- and high-income groups in the rest of Central America and in most other small countries: gasoline, cooking oil, many types of medicine, paper, and a wide variety of other Western imported goods, especially luxury goods. The shortage of imported goods in particular arose from a deliberate government decision to use limited hard currency to import items more necessary for continued production or for meeting basic needs; whereas this policy may have suggested insensitivity to those whose consumption patterns included more imported goods, it does not imply chaos or the simple malfunctioning of the economy. On the contrary, the whole rationing apparatus reflected the political decision to have the state "manage scarcity" rather than "letting scarcity manage itself" through an unfettered price mechanism that would benefit higher

country's most important export product, coffee, in order to stem capital flight.

Government control of the banking system and international trade, as well as the expansion of government distribution systems, did narrow the realm within which Nicaraguan private producers could function. Those who were previously engaged in import-export businesses were particularly affected. On the one hand, because the government absorbed more of the risk of price fluctuations for both imports and exports, producers were better protected from the vicissitudes of international markets. On the other, they faced more government regulations, such as minimum wage requirements and higher occupational safety and health standards. The context within which profit-making decisions are made in Nicaragua had been deliberately altered, and many businesspeople who were successful before 1979 decided that they could not operate under the new conditions. Nonetheless, in contrast with the extensively socialized economy of Cuba, the Nicaraguan economy remained predominantly private.

External policies

Cuba did not have the option of autarchy enjoyed by such socialist giants as China and the Soviet Union. Its natural resource limitations, the colonial heritage of export monoculture, and low levels of industrialization meant that Cuba had to retain some niche in the international division of labor. Whatever its original intentions, however, the Cuban government was forced to turn to the socialist bloc for trading partners after the punitive embargo imposed in 1961 by the United States and subsequently agreed to by a majority of Latin American governments. Cuba also depended on socialist countries for development

finance, partly because its abrogation of external debt to capitalist countries and institutions made borrowing in international credit markets impossible.²²

At the outset, Nicaragua had a better opportunity than Cuba to reduce dependence on international trade, partly because Nicaraguan agricultural production possibilities are richer and more varied than those of Cuba and thus agricultural self-sufficiency was more easily within Nicaragua's reach. Rather than attempting a quick and perhaps costly shift to self-sufficiency, however, Nicaragua sought to diversify dependence---that is, to reduce reliance on a single trading partner, the United States---while continuing to benefit from its comparative advantage in certain exports. To reach this goal, Nicaragua tried to expand and diversify its participation in the international capitalist system of trade and finance while simultaneously using state control and appropriation of most of the surplus or "profits" generated to improve the consequences of international integration. Although Nicaragua also developed extensive trade and credit relations with the socialist bloc countries, only approximately 25 percent of all financial assistance (other than military) between 1979 and the beginning of 1985 had come from those countries; a considerably smaller proportion of Nicaragua's total trade was with the same countries.²³ In May 1985, however, the United States imposed an embargo on trade with Nicaragua; this action will likely make it more difficult for the Sandinistas to avoid the excessive financial and trade reliance on the socialist bloc which is typical of Cuba.

In contrast with Cuba's approach to the debts incurred by the prerevolutionary regime, the Nicaraguan government committed itself to servicing its international debt, expecting that this policy would leave open the channels of international financial assistance which have been available

both to other transitional societies (such as Tanzania) and to established socialist societies (such as Poland).²⁴ The World Bank, applauding Nicaragua for its "responsible" decision, initially proposed that substantial amounts of aid be provided.²⁵ After 1981, however, intervention from the United States representatives at the World Bank, the Export-Import Bank, the International Monetary Fund, and the Inter-American Development Bank blocked most multilateral loans and grants. This overt politicization of the lending process has been criticized even by U.S. allies.²⁶

The Role of the State

The comparison of Cuba and Nicaragua also reveals basic differences in the and functioning of the state and state planning in the economy. As noted earlier, in the mid-1980s market signals continued to play an important role in contemporary Nicaragua. Farmers' decisions with respect to crops, fertilizers, herbicide and insecticide combinations, and the employment of labor were, for example, largely market-determined. The government's attempts to alter the composition of production were mostly limited to moral suasion, the establishment of minimum conditions for the labor force, a variety of price and credit incentives, and the setting of intermediate import prices. Indeed, one market sector uncontrolled by the state, the so-called informal sector, actually expanded in the first years of Sandinista rule as government attempts to hold down money wages in order to protect price and profit levels in the private capitalist sector led many wage workers to shift to the self-employment typical of informal activities in the hope of increasing their real incomes.²⁷

As for planning, in the mid-1980s it remained a primitive art in Nicaragua, hindered by the absence of even the most fundamental baseline data,

by the lack of instruments for controlling the predominantly private economy, and by a shortage of skilled planners. The planning that was undertaken came much closer to the project-specific planning promoted by the World Bank than to the systematic approaches of Eastern Europe or China (or to the planning system that finally began to function in Cuba in the 1970s). Planning documents, discussions with planners, and government statements, showed little evidence that planning comparable to the Soviet or contemporary Cuban models was contemplated. The economic role of the state in Nicaragua was mostly limited to implementing fiscal and monetary policy, managing state farms, and conducting a host of specialized programs to deal with concrete problems.

Counterrevolutionary Reaction and the Defense of the Revolution

Seven years after their respective revolutions, Cuba and Nicaragua both were subjected to direct military attacks by counterrevolutionary exiles organized and financed by the CIA. The two nations had also developed relatively large, efficient, well-equipped armies with the support of the Soviet Union. And both had seen the burden of military expenditures adversely affect their domestic economies.

In the mid 1980s it became clear that the contra war had had a significant impact on Nicaragua's economic progress and evolution. By 1985 direct damage to economic targets, especially in the coffee growing northern highlands, had cost Nicaragua more than \$300 million (a figure that has certainly grown then) and 50 percent of current government expenditure were destined for defense.²⁸ Many of the most successful social programs, implemented in 1979 and 1980, had been slowed or halted by the economic demands of the war. Fewer new schools and clinics were constructed while agricultural and industrial production suffered

because available hard currency was being used to support the war effort. Moreover, the requirements of military mobilization had created chronic shortages of manual labor.

The contra war, however, appeared to have had some positive effects in terms of internal support for government economic policies. It is true that in the absence of U.S. intervention, many private capitalists would have been obligated to adjust to the new realities of a Sandinista Nicaragua; U.S. support of counterrevolution encouraged these individuals to resist change and engage in economic sabotage rather than find new avenues for profit-making in the transformed economic landscape. At the same time, the external origins and financing of the contras were so clearly seen by to most Nicaraguans that even those dissatisfied with some aspects of the revolutionary process tended to rally behind the government. There is anecdotal evidence that many private-sector producers and other Nicaraguans would have demanded more of the government if there had been no war. There was probably more acceptance of rationing and shortages, and more support for austerity, than might have existed if no external aggression had been directed against Nicaragua. At the same time, it is clear that a less painful way to retain political support would have been to accomplish those developmental tasks being derailed by the war.

The Role of Class

It is in the fundamental class orientation of the revolution that Nicaragua draws closest to both Cuba in particular and the socialist archetypes in general. One feature that distinguishes the growth of the state in Nicaragua from similarly extensive state expansion in Brazil is the support the Brazilian

state gave to elites in what might be termed a "capitalist accumulation project." In contrast, Nicaraguan state policy has been designed to meet the basic needs of the principal constituents of the Sandinista Front: the working class and the peasantry.

Although the Sandinista Front did intend the new development path to benefit primarily workers and peasants, it argued that its accumulation project represented a broadly conceived "logic of the majority." This broad vision, a unique feature of the Nicaraguan model, allowed the front to draw support from a wide variety of classes. The multiclass character of the developmental strategy, as well as the continuing roles for markets and private property described above, even led some to the left of the Sandinistas to fear that Nicaragua would evolve into a state-supported capitalist economy with a strong, hegemonic party born of the revolutionary process—that is, another Mexico.

Political Participation

We turn now to the criterion of special concern to Michael Manley: democratic processes. Evaluating democracy and the adequacy of political participation is always a thorny and hotly disputed process. Without doubt, Cuba represents a transition model that has not implemented traditional Western electoral processes. There is evidence that grass roots participation in fundamental decision making in Cuba exists to an extent generally ignored by many of that nation's critics. Yet, the lack of an opposition press and of other vehicles for voicing dissent, the centralization of most social and economic decision making, and the absence of competing political parties leaves Cuba open to the sort of criticisms Manley and others might voice.

In Nicaragua, on the other hand, continuous and contentious expressions of opposition marked most of the early years of the revolution. Among the mass organizations that were critical of the government, some to its right and some to its left, were anti-Sandinista private-sector, labor union, and church-based groups. The newspaper with the largest paid circulation, La Prensa, was virulently anti-Sandinista; before June 1986, it had never been blocked from publishing for more than a few days at a time, albeit often with partial censorship. The level of censorship varied in response to several factors: the onset and deepening of the counterrevolutionary war, worsening social and economic conditions, and a tendency of the paper's owners and editors to test the limits of censorship with deliberately provocative articles.²⁹

Along with the attempt to maintain a degree of political space for opposition forces, Nicaragua moved to ensure popular participation in government decision making. By the mid-1980s this effort had passed through a number of phases. In the immediate aftermath of the insurrection, a wide variety of nationally oriented mass organizations had been formed. In addition, all major constituencies were initially represented in the Council of State, a body that was, in fact, largely dominated by worker and peasant groups throughout its short history.³⁰

By 1984 elections had been held for a new legislative body and for the presidency. Although the elections have been publicly criticized (with little detail) by the U.S. Department of State, numerous international observer groups have concluded that the electoral process was fair and legitimate.³¹ When the new National Assembly began to operate in 1985, thirty-four of ninety-six seats were held by representatives of six opposition political parties, and the Sandinista political base of workers and peasants actually had less explicit

and proportional representation than it had enjoyed under the transitional council.

In October 1985 the Sandinista government imposed a state of emergency on the nation, thus restricting civil liberties. Although some analysts argue that the scope of restrictions was exaggerated in the media, and that the decision was based on legitimate fears about the formation of a new internal front in the ongoing counterrevolutionary war, the state of emergency dealt a blow to Nicaragua's international image.³² The image was further damaged when, in June 1986, on the heels of a U.S. congressional vote to increase aid to the contras, the Sandinista government abandoned its flexibility in applying the state-of-emergency rules and closed down La Prensa. Despite these problems, it remains difficult to dismiss Nicaragua's commitment to pluralism as mere window dressing, particularly in view of the external and internal constraints on Nicaraguan democratic structures posed by intervention and counterrevolution.

THE CHALLENGE OF THE NICARAGUAN EXPERIMENT

By the mid-1980s Nicaragua had indeed moved in the direction of some form of socialism. At the same time, the evolving economic and social experiment models in Nicaragua exhibited many important differences from the archetypal models of the Soviet Union and the People's Republic of China, the "third path" of Jamaica, or the experience of revolutionary Cuba. The major role played by the private sector in critical agricultural exports, the use of market processes for wholesale and retail distribution of goods, the active role of labor unions and peasantry in the design and implementation of the most important policies affecting their own welfare, and the relatively high levels

of political pluralism and public dialogue all combined to make the Nicaraguan experience a distinct transitional experiment.

It is not clear, however, whether the Nicaraguan policies embody too many contradictions to permit the consolidation of a stable and viable model of development. Will the present mode of accumulation, based on the state as locus of accumulation and driven by continued exports of unprocessed agricultural products, generate the surplus needed to underwrite programs for the fulfillment of basic needs? Will the attempt to preserve the private sector in crucial roles prove compatible with national needs for expanded production and improvements in the living standards of the poorest groups? Will the capitalist class ultimately be able to accept the state's leading role in investment? Can the Sandinista Front retain sufficient political strength to permit resolution of the ongoing class conflict in its favor? Will Nicaraguan society move toward the more centralized socialism found in Cuba or perhaps toward a more capitalist model, such as that in Puerto Rico? Can the turn toward the latter be achieved under the the continued hegemony of the Sandinista Front?

While these internal conflicts and contradictions are certainly problematic enough, the stability and viability of the Nicaraguan model is also partly dependent on the reaction of international actors such as the United States. Unfortunately for Nicaragua, the U.S. has thus far reacted with great alarm. As a result, the Sandinista government has been confronted by a U.S. economic embargo, constant U.S. military maneuvers in neighboring Honduras, and a counterrevolutionary military force trained and funded by the United States. If the United States-funded counterrevolutionary war continues through the decade, shortages and production difficulties may lead Nicaragua to move policies away from the present experiment with a mixed economy and closer to

the more orthodox socialist experiences of Cuba, China, and the Soviet Union. If forced upon Nicaragua, this direction could still result in significant improvements over the economic system inherited from the Somoza dynasty; it would not, however, seem to be what the architects of the Nicaraguan model originally had in mind.

In the early and mid-1980s the challenge for U.S. policy was to recognize that Nicaragua was developing an alternative to both the Soviet and Cuban models as well as to the prototypical free-enterprise system. The Reagan Administration met this challenge by labeling the Sandinistas Marxist-Leninist and launching a political, military, and economic aggression against Nicaragua which is easily interpreted as a deliberate attempt to sabotage the Sandinista experiment. Yet even if U.S. objectives in the Third World include the preservation of private sector participation and maintenance of international systems of trade and finance, Nicaragua offers a potentially exciting development model in which rapid accumulation is consistent with fundamentally democratic processes. For the rest of the decade, the continuing question is whether the United States, perhaps under a new administration, will leave simplistic stereotypes to one side and allow the Nicaraguan experiment to run its own course.

NOTES

1. U.S. Department of State, The Soviet-Cuban Connection in Central America and the Caribbean, Bureau of Public Affairs (March 1985).

2. See, for example, M. E. Conroy, "False Polarisation? Differing Perspectives on the Economic Strategies of Post-Revolutionary Nicaragua," Third World Quarterly 6 (October 1984) 4:993-1032.

3. Kenneth P. Jameson and Charles K. Wilber, "Socialism and Development: An Editors' Introduction," World Development, Special Issue on Socialism and Development, 9 (1981) 9/10:803-811.

4. Ibid., p. 804.

5. E. V. K. FitzGerald, "Notes on the Analysis of the Small Underdeveloped Economy in Transition," in Transition and Development: Problems of Third World Socialism, ed. Richard R. Fagen, Carmen Diana Deere, and Jose Luis Coraggio (New York: Monthly Review Press, 1986), pp. 28-53.

6. The criteria we develop are also an alternative to the schema proposed by Michal Kalecki. See his "Observations on Social and Economic Aspects of Intermediate Regimes," in his Essays on Developing Countries (Atlantic Highlands, NJ: Humanities Press, 1976), and his Selected Essays on the Economic Growth of the Socialist and the Mixed Economy (Cambridge: Cambridge University Press, 1972).

7. FitzGerald, "Small Underdeveloped Economy."

8. Ibid., pp. 15-17.

9. Carlos Diaz Alejandro, "Delinking North and South: Unshackled or Unhinged?" in Rich and Poor Nations in the World Economy, ed. Albert Fishlow, et al. (New York: McGraw-Hill, 1978).

10. Rudolf Bahro, The Alternative in Eastern Europe, trans. David Fernbach (London: Verso Editions, 1981).
11. Harry Cleaver, Reading Capital Politically (Austin: University of Texas Press, 1978).
12. Michael Manley, Jamaica: Struggle in the Periphery (New York: W. W. Norton & Co., 1982).
13. Ibid., p. 25.
14. Ibid., p. 37.
15. Ibid., p. 38.
16. Ibid.
17. See Kenneth P. Jameson, "Socialist Cuba and the Intermediate Regimes of Jamaica and Guyana," World Development 9 (1981) 9/10: 871-888.
18. See Hugh Thomas, The Cuban Revolution (New York: Harper & Row, 1977); Jameson, "Socialist Cuba"; Carmelo Mesa-Lago, ed., Revolutionary Change in Cuba (Pittsburgh: University of Pittsburgh Press, 1971); and Claes Brudenius, Revolutionary Cuba: The Challenge of Economic Growth with Equity (Boulder, CO: Westview Press, 1984).
19. See "Nicaragua: The Sorry Path of Sandinism," Communist Program 6 (September 1984); Oscar Rene Vargas, "Nicaragua y Revolucion II," Coyocoacan (April-June 1981): pp. 59-104; and Henri Weber, "Nicaragua: The Sandinist Revolution," in F. Ambursley and R. Cohen, eds., Crisis in the Caribbean (New York: Monthly Review Press, 1983).
20. Carmen Diana Deere, "Agrarian Reform and the Peasantry in the Transition to Socialism in the Third World," Helen Kellogg Institute for International Studies, University of Notre Dame, Working Paper #31, December 1984.
21. See Valerie Miller, Between Struggle and Hope: The Nicaraguan Literacy

Crusade (Boulder, CO: Westview Special Studies on Latin America and the Caribbean, 1985); and John Booth, The End and the Beginning: The Nicaraguan Revolution, 2nd ed. (Boulder, CO: Westview Press, 1985).

22. For a recent reinterpretation of the international financial needs of and financial alternatives for transitional countries, see Barbara Stallings, "External Finance and the Transition to Socialism in Small Peripheral Countries," in Transition and Development: Problems of Third World Socialism, ed. Richard R. Fagen, Carmen Diana Deere, and Jose Luis Coraggio (New York: Monthly Review Press, 1986), pp.54-78.

23. See M. E. Conroy, "External Dependence, External Assistance, and Economic Aggression against Nicaragua," Latin American Perspectives, Issue 45, 12 (Spring 1985)2: 39-67; Ruben Berrios, "Economic Relations between Nicaragua and the Socialist Countries," Journal of Interamerican Studies and World Affairs 27 (Fall 1985) 3: 111-139; and M. E. Conroy, "Patterns of Changing External Trade in Revolutionary Nicaragua: Voluntary and Involuntary Trade Diversification," in Rose J. Spaulding, ed., The Political Economy of Nicaragua (New York: Allen and Unwin, 1986).

24. See Stallings, "External Finance."

25. World Bank, Nicaragua: The Challenge of Reconstruction, Report 3524-N1, 8 September 1981.

26. Cf. Daniel Siegel and Tom Spaulding, with Peter Kornbluh, Outcast among Allies: The International Costs of Reagan's War against Nicaragua, Institute for Policy Studies Issue Paper (Washington: Institute for Policy Studies, November 1985).

27. The shift from wage work to the informal sector was encouraged by the fact that access to Nicaragua's ample package of social services was not tied to a

worker's place of employment. Thus one reason to stay in wage work---to retain access to social services---had been effectively removed. This policy was changed in early 1986.

28. E. V. K. FitzGerald, "Una evaluacion del costo economico de la agresion del gobierno estadounidense contra el pueblo de Nicaragua," paper presented at the Latin American Studies Association Congress, Albuquerque, April 1985. A recent Nicaraguan estimate puts the destruction of goods and losses in production owing to the contra war at almost \$600 million for the period 1982-1986. See Instituto Nacional de Estadisticos y Censos, "Agresion: Costos y Danos."

29. See John Spicer Nichols, "The Media," in Nicaragua: The First Five Years, Thomas W. Walker (New York: Praeger, 1985), chap. 8, pp. 183-201.

30. See Luis Serra, "The Sandinist Mass Organizations," in Nicaragua in Revolution, ed. Thomas W. Walker (New York: Praeger, 1982), chap. 5, pp. 95-114; see also Serra, "The Grass-Roots Organizations," in Nicaragua: The First Five Years, ed. Walker, chap. 3.

31. See, for example, The Electoral Process in Nicaragua: Domestic and International Influences, Report of the Latin American Studies Association Delegation to Observe the Nicaraguan General Elections of November 4, 1984 (Austin: Latin American Studies Association, 19 December 1984); The Elections in Nicaragua, November 1984, Report of the Irish Inter-Party Parliamentary Delegation; Report of a British Parliamentary Delegation to Nicaragua to Observe the Presidential and National Assembly Elections, 4 November 1984. All these reports are available in photocopy from the Central America Resource Center, P.O. Box 2327, Austin, TX 78705.

32. Cf. David R. Dye, "The National Emergency in Nicaragua: A Provisional Interpretation," IASA-NICA Scholars News (January 1986) 9: 1-4.

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