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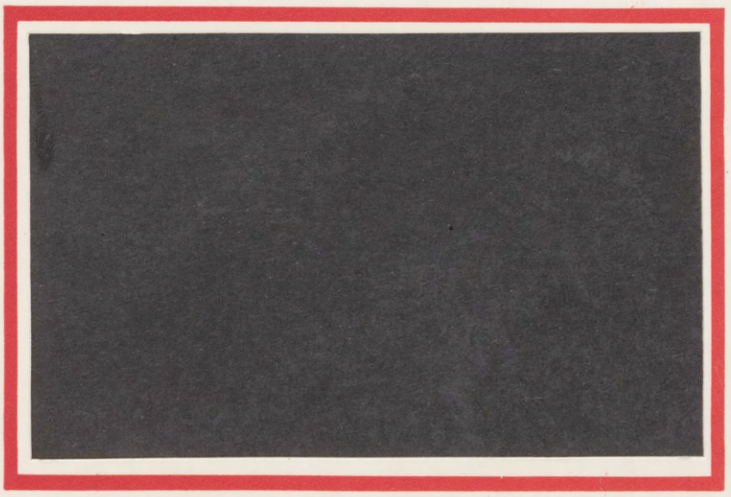

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ECONOMIC POLICY AND SOCIAL TRANSITION IN REVOLUTIONARY NICARAGUA

by

TREVOR EVANS

DPP Working Paper No.13

Development Policy and Practice Research Group

Faculty of Technology

The Open University

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ECONOMIC POLICY AND SOCIAL TRANSITION IN REVOLUTIONARY NICARAGUA

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TREVOR EVANS

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Contents

	Page
PART 1: The Sandinista Model	1
The Structure of the Mixed Economy	3
International Non Alignment	7
Accumulation	8
PART 2: The Model in Practice, 1979-84	10
World recession	11
US Agression	12
The role of the state	17
Labour	19
Prices	24
Money and inflation	29
PART 3: Economy of Survival	32
The turn to the peasantry	35
Prioritising the countryside	38
The economic need for peace	41
Monetary reform	43
In conclusion	46
Tables	

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PART 1: THE SANDINISTA MODEL

In July 1979, a series of mass uprisings led by the Sandinista Front for National Liberation (FSLN)[1] overthrew the corrupt and repressive dictatorship which had ruled Nicaragua for 45 years. US marines had occupied Nicaragua from 1912-25 and 1925-33, and in order to facilitate their departure they set up a military force called the National Guard and installed an English-speaking officer, Anastasio Somoza, as its commander. Somoza used this base to establish a dictatorship and it was subsequently continued by his two sons.

Nicaragua is a small, predominantly agricultural country with a population of about three million people. Some 70% of the country's production is based on cultivating and processing agricultural products, and the economy is dependent on agricultural exports, of which the most important are coffee, cotton, sugar and beef. The development of capitalist agriculture, especially during the period after the second world war, displaced many peasant producers from the best land along the country's Pacific plain. In order to survive, a large number of peasants were forced to seek low-paid seasonal work, harvesting export crops on capitalist farms. Others fled to the more mountainous interior, where they attempted to eke out a living, often on rather marginal land. There were also a growing number who migrated to the cities, especially the capital, Managua, where some found waged work, although most had to depend on small-scale trade and production in a burgeoning informal sector.

Rapid accumulation during the 1950s and 1960s led to great prosperity for the bourgeoisie and to the expansion of a professional and commercial middle class. However, in the 1970s the agro-export model encountered a number of difficulties, and

[1] The FSLN was founded in 1961. It is named after Augusto Cesar Sandino, who led an undefeated peasant army against US marines who occupied Nicaragua from 1926-33. Sandino was assasinated when he attended peace talks with Anastasio Somoza.

the rampant greed of the Somozas even begun to alienate sectors of the bourgeoisie, although these were politically weak and inexperienced, as no serious legal opposition was allowed to develop.

The overthrow of the dictatorship led to the disintegration of the National Guard, and many of its members fled to Honduras and Miami. A government of National Reconstruction was set up under the leadership of the FSLN, and a new Sandinista Peoples Army was formed from among the irregular guerilla combatants. The new government initially included a number of non-Sandinista ministers, although by the end of 1979 five of the most important positions were filled by members of the FSLN's nine-person collective leadership.[2]

One of the major issues confronting the new government was the economy. The war against Somoza had resulted in extensive damage to the country's infrastructure and many crops had not been sown.[3] But, in addition to the damage, there was a deeper problem that stemmed from the nature of the economic structure that had been inherited from the dictatorship. The whole economy was oriented to the production of agricultural exports for the capitalist world market, and the internal organisation of production was based on capitalist labour relations that had been developed under the umbrella of a highly repressive state. The challenge which the new government identified was not merely how to reactivate the economy, but also how to transform it so that it might be redirected towards satisfying the basic needs of the country's popular sectors: the

[2] The Sandinistas subsequently received widespread popular endorsement at the country's first ever free General Elections in 1984. These were contested by seven parties, and in a turnout of 75 per cent, the FSLN won 67 per cent of the vote. The treasurer of the Conservative Party, which won 14 per cent of the vote, afterwards reported that the US Embassy had offered $300,000 to the Party and $50,000 to four of its leaders if they withdrew from the election (Peter Kornbluh, *The Price of Intervention*, Washington, 1987, p.177). The election was boycotted by a coalition of small parties led by Arturo Cruz. In January 1988, Cruz told the *New York Times* that he considered the boycott to have been a mistake; he also revealed he had been on the CIA payroll at the time.

[3] The United Nations Economic Commission for Latin America (ECLA) estimated the cost of the damage to be $480 million.

peasants, the workers and the members of the urban informal sector.

The strategy adopted by the Sandinistas was based on a mixed economy. This was chosen for a combination of economic and political reasons. The main reason was the importance attached to preventing a collapse of production, especially in the key agro-export sector. However, the large number of small producers, especially peasants, meant that widespread nationalisation not considered to be a feasible option. The choice of policy was also influenced by the fact that during the overthrow of Somoza, the FSLN had constructed an alliance with some sectors of the bourgeoisie, and that afterwards they were concerned to achieve international legitimacy so that it would be more difficult for the US government to intervene militarily.

The Structure of the Mixed Economy

The mixed economy in Nicaragua consists of three distinct forms of property: a state sector, a capitalist sector and a sector of small producers (see table 1). However, unlike mixed economies in the advanced capitalist countries, where the state sector is oriented primarily to promoting accumulation in the capitalist sector, in Nicaragua the state sector was intended to be the centre of accumumulation, although more recently, there has been an important shift, and greater emphasis has come to be placed on the small producers.

The basis of the state sector is the farms and factories that were expropriated from Somoza and his close allies. These form what is called the Area of Peoples Property (APP) and, by the early 1980s it accounted for about 20 per cent of agricultural land and 25 per cent of industrial output. The second major part of the state sector is the financial system. This was in any case bankrupt at the time of the revolution, and it was nationalised. Because a large part of the country's agricultural production is conducted using credit, this provides the government with an important lever over the rest of the

economy. The third major feature of the state sector is the export trade, which was also nationalised immediately after the revolution. Export producers are required to sell their produce to state marketing companies, and they are paid principally in the national currency, córdobas. The marketing boards then sell the commodities in the world market, and receive the foreign exchange. This system of trade has two aims: it enables the state to insulate the Nicaraguan economy to some extent from the destabilising effect of the large fluctuations of primary commodity prices in the world market; but, most important, it ensures that the foreign exchange is not used to finance the luxury consumption or private accumulation of capitalist producers, but instead can be allocated by the government according to its social priorities. The availability of foreign exchange is one of the key constraints on the economy, and, because virtually every form of economic activity depends to some extent on imported inputs, government control over the allocation of foreign exchange is one of the single most important instruments of economic planning.

The small producer sector consists of artisans and peasants. This sector produces for the market, though, unlike the capitalist sector, it is not based on wage labour, but on the labour of the small producers themselves and of their households. Artisans produce a large part of the country's shoes and clothing. They work either in individual units or in cooperatives, something that the Ministry of Industry has encouraged, partly to facilitate the distribution of raw materials. It is, however, peasants who are the most significant part of the small producers. They account for around half the population and are the principal producers of the country's basic grains, in particular beans and maize (although not rice, which is cultivated on large capitalist and state farms).

Peasant production is organised in three main forms, each of which accounted for about 10 per cent of agricultural land in 1985: individual family plots; Credit and Service Cooperatives, where production is based on individual plots, but where the provision of

credit and the purchase of seeds, fertilisers and other inputs is cooperativised; and, finally, Sandinista Agricultural Cooperatives, where not only commercial activities, but also the ownership and cultivation of the land are organised collectively. The peasant sector has been the principal beneficiary of two main policies. First, agrarian reform has resulted in the distribution of large areas of land, initially to cooperatives, and, more recently, to individual peasants. In addition, many other peasants have received the legal title to land they already farmed but without any security of tenure. By the end of 1987, 72,000 households had received land and 40,000 had received the title to land they already farmed. On the basis of five or six people per household, the number of people to have benefited from agrarian reform amounts to about 600,000, or something approaching half of the rural population. The second policy that has particularly benefited peasants has been in the area of credit. Whereas the conditions attached to bank credit under Somoza had largely excluded peasants from receiving credit, the creation of a scheme of Rural Credit has ensured that peasants became eligible to receive all the credit necessary to cultivate the land they farm.

The third main part of the mixed economy is the capitalist sector, and this occupies a very contradictory position.[4] On the one hand, the bourgeoisie has lost the political and military support to which it was accustomed under Somoza, and the government now unequivocally proclaims that its aim is to promote the interests of workers and peasants. However, the capitalist sector still accounts for about half of Nicaragua's industrial output, and, more crucially, it is the main producer of the country's vital agricultural exports, and the government has gone to great lengths to encourage the capitalist sector to continue producing. The nationalised financial system supplies credit to cover virtually all the costs of production[5] and the rates of interest have been low in nominal terms and strongly negative in real terms. Inputs, such as seeds, fertilisers,

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[4] Carlos Vilas is especially good on the relation between the bourgeoisie and the revolutionary state. See 'Nicaragua: The Fifth Year', *Capital & Class*, No 28, 1986, and *The Sandinista Revolution*, Monthly Review Press, 1986.

[5] Since 1987, credit has been restricted to 80 per cent of costs.

insecticides, fuel, and machinery have been kept cheap through a policy of maintaining a high official exchange rate and a system of official prices. Wages have also been controlled. Finally, when the exporters sell their produce to the state marketing companies, they have been paid a guaranteed price that is set on the basis of the cost of production plus a mark-up of 20 or 30 per cent. Some of the products would normally expose producers to considerable economic risk, and in nearby El Salvador and Guatemala, for example, cotton producers have made losses in recent years. In Nicaragua, however, the losses have been borne by the government. The revolutionary state therefore has been in the position of guaranteeing the profits of the capitalist sector.

The response of the capitalist producers has been divided. One part, the so-called patriotic producers, have actively cooperated with Sandinista policies. But there are certainly many others who are completely opposed to the government; if they produce it is to avoid losing their property, which is liable to be expropriated if it is left idle or underused. Finally, there are many, probably the majority, who are unsympathetic to the government's policies, but continue to produce, if without great enthusiasm. They complain that, although credit is cheap and ample, it is only available if they produce what the government want them to. And they complain that, while they receive guaranteed profits, these are in córdobas, and what they want is US dollars. The government responded to this complaint by giving export producers the right to buy some dollars at a relatively preferential exchange rate - although there were not always dollars available to sell - and more recently it has introduced a system of incentive payments in dollars.

The relation between the state and the bourgeoisie has therefore been rather contradictory, and while the government has tried to maintain production, it has also attempted to encourage the bourgeoisie to support the legal political opposition rather than the armed counter-revolution.

International Non-Alignment

The corollary of the mixed economy at the international level has been a strategy of non-alignment. Historically, the Nicaraguan economy has not only been dependent on a small number of agricultural exports; it has also been overwhelmingly dependent on one particular market for both its exports and its imports: that of the United States. The Sandinistas acknowledged that a small, agro-exporting economy could not cease to be dependent, but they tried to reduce the vulnerability that this involves through a policy of diversifying their dependence. The aim of this was to broaden their international trading and financial relations, so that they would be spread more equally between four main blocs: the US; the other advanced capitalist countries, including Western Europe and Japan; third world countries, in particular those of Latin America; and the socialist countries.

In the sphere of international trade, this goal was broadly achieved in the first few years after the revolution (table 2). Since then, however, it has been disrupted by the policies of the US government. Nicaragua's entitlement to sell sugar in the US was cut by 90 per cent in 1983, and in May 1985, President Reagan imposed a complete economic embargo on the country. The most serious impact of the embargo has been on the availability of spare parts for the country's agricultural and industrial machinery, much of which came from the US and is now rather old. The Nicaraguans have been able to redirect most of the exports that previously went to the US, although this has involved higher transport

costs. Shell fish are now shipped to Canada and Mexico, and fruit and coffee are sold in Europe. This change has been reflected in the growth of Western Europe's share of exports. The main change in composition of imports, by contrast, has been a large increase in the share of the socialist countries, a change that is closely linked to the availability of international finance.

Since the early 1980s, all the agro-exporting economies of Central America have ceased to be financially viable, and have depended on receiving substantial amounts of foreign finance. El Salvador, Honduras and Costa Rica have all received a major part of their foreign finance from the US.[6] Nicaragua, by contrast, has had its access to many sources of finance blocked by the US. Private banks were pressured not to lend any more money, and in both the World Bank and the Inter-American Development Bank, the US used its voting position to block loans for specific development projects that had already been approved by the bank's technical staff. As a result, Nicaragua became increasingly dependent on bilateral loans form other governments, something the US also tried to get blocked in Western Europe - much to the chagrin of some of the governments involved. But with the notable exception of some of the smaller countries, in particular Sweden and Holland, the finance provided by Western European governments has been rather small. The overall result is that, despite the Sandinistas' continuing attempts to diversify their international economic relations, a growing share of Nicaragua's external finance has come from the Soviet Union (table 3).

Accumulation

[6] This finance has been used as a lever to gain support for US policies in the Region. Costa Rica was subjected to great pressure to abandon its initial position of neutrality towards Nicaragua. More recently, pressure has been applied to the Honduran government, which has become increasingly concerned at the US, Salvadoranian, and contra military presence in the country. In El Salvador, the pressure has been on the far-right military to accept the US constructed centre-right government of Napoleon Duarte.

The Sandinistas' attempt to diversify Nicaragua's international trading and financial relations was accompanied by an ambitious attempt to transform the productive structure of the economy. Since the early 1960s, there had, within the framework of the Central American Common Market, been some investment in manufacturing industry. However, this was oriented principally towards the production of consumption goods for the middle class and the bourgeoisie, and was heavily dependent on imports, not only for machinery and equipment, but also for semi-manufactured raw materials. This model of industrialisation therefore depended on an agricultural export surplus, and it ran into difficulties in the mid-1970s, when world prices fell following the end of the post-war boom in the advanced capitalist countries. The investment programme initiated by the Sandinista government emphasised a philosophy of industrialising on the basis of the country's own natural resources - Nicaragua had been exporting raw cotton and then importing thread, cloth and clothing.

Since 1980, investment has accounted for around 20 per cent of Nicaragua's GNP, and this began at a time when investment had virtually collapsed in the rest of Central America. The investments are predominantly in large, modern projects in the state sector. This is partly due to the policy governing the allocation of foreign exchange, although it also reflects the fact that, while capitalists have to a greater or lesser extent maintained production, they have been far more reluctant to invest.[7] Of the total investment in the period 1980-85, 75 per cent was in the state sector, 15 per cent in the capitalist sector, and 10 per cent in the small-producer sector.

The largest projects include a huge new sugar mill, together with a reservoir in nearby mountains to provide irrigation for its fields; a very big dairy just outside Managua; the installation of giant irrigation pivots on the Pacific plain so that basic grains can be produced during the dry season; a fruit and vegetable canning plant; two plantations to

[7] Capitalist reluctance to invest has been particularly marked in the agricultural sector; it has been less true in the industrial sector.

produce vegetable oil from palm trees; and a deep-water port on the Atlantic coast. There are two projects to reduce the dependence on imported energy: a geo-thermal plant which taps the heat from a volcano, and a hydroelectric scheme. There have also been many smaller projects, including two new textile factories, and considerable investment in urban infrastructure, including drains and roads.

PART 2: THE MODEL IN PRACTICE, 1979-84

The immediate aim of economic policy was to reactivate the economy following the war against Somoza and in this it was relatively successful. By 1981, export production had returned to pre-1979 levels in coffee and sugar, although not in cotton and beef. The output of basic food had also been recuperated in maize and sorghum, but not in beans and milk, while striking increases were registered in the output of rice, chickens and eggs. The overall advance of material production is indicated by the country's GDP, which is estimated largely on the basis of data for real output in agriculture and industry. Between 1980 and 1983, Nicaragua's real GDP grew by nearly 14 per cent (table 4).

One of the major achievements during this period was a large expansion of social expenditure, in particular on health care and education.[8] Many health centers were built, and their services became available to many members of the population for the first time, especially in rural areas. Mass vaccination programmes, which eliminated polio and sharpy reduced the incidence of measles and malaria, were hailed as a model of primary health care by the World Health Organisation, and between 1978 and 1984 the infant mortality rate fell from 121.6 to 76.4 per 1,000. In the sphere of education, 1,404 new schools were built between 1979 and 1984, most of them in rural areas, and a renowned Literacy Campaign in 1980 reduced the illiteracy rate from 49.5 to 12.6 per cent of the population.

[8] For a very readable description of the gains achieved after 1979, see Joseph Collins *et. al., What difference could a revolution make?* Second edition, 1985.

Despite the achievements during the initial period, GDP never reached the level it had been at before 1979, and, as a result of the rapid growth, a number of economic constraints quickly began to emerge. The most immediate was the gap between Nicaragua's export receipts and its expenditure on imports. Although the country was receiving aid and finance from abroad, there was a serious shortage of foreign exchange. By the end of 1983, the black-market exchange rate was already half the government's parallel rate and seven times less than the basic, official rate.

Government policy in assigning the official supply of foreign exchange was to prioritise imports of basic goods and the inputs necessary to produce them. As a result, the initial effect of the foreign exchange shortage was on the supply of non-basic consumption goods, and this fell by over 60 per cent between 1980 and 1982. However, as the shortage of foreign exchange became more serious, it led to shortages of imported raw materials and spare parts, and this in turn began to hold back production. This had a very direct impact on industry, which is particularly dependent on imports, but it also affected agriculture, which uses imported insecticides and fertilizers as well as imported fuel and spares for its machinery and transport. From 1984 until 1986, GDP fell in each year, resulting in a total decline of just over 6 per cent. One of the reasons for this was the onset of a major international recession.

World Recession

The world economic recession from 1980-82 had a devastating effect on the economies of Central America. The main impact on Nicaragua was through the slackening demand for primary commodities in the world market. Since the post-war boom ended in the early 1970s, the price of primary commodities has tended to decline relative to that of manufactured goods, but the recession in the early 1980s led to a particularly sharp fall

in their price. For example, the price of coffee fell from $1.65 per pound in 1980 to $1.08 in 1983, and beef fell from $1.30 in 1980 to $0.89 in 1984. Coffee has since partially recovered, but in the case of sugar and cotton, the impact of the recession has been further aggravated by increases in the supply from other countries.[9] As a result, the price of cotton fell from $0.71 per pound in 1980 to $0.38 in 1986 - less than the cost of the imported inputs necessary to produce it.

This fall in prices means that the expenditure of a given amount of labour and other resources within Nicaragua will earn less foreign exchange, and hence buy fewer of the imports that are necessary for the economy to function. This fall in primary commodity prices has been the principal reason for the relatively low rate of inflation in Britain and the other advanced capitalist countries in the 1980s. But while prices in these countries have not risen as fast as in the 1970s, they have never the less continued to increase. As a result, Nicaragua has not only earnt less from its exports, it has also - like other third world countries - had to pay more for the industrial products (fertilisers, insecticides, machinery) that it imports.

The combined effect of the fall in export prices and the rise in import prices is measured by the terms of trade. According to figures published by the Economic Commission for Latin America, Nicaragua's terms of trade fell from a base of 100 in 1980 to 68 in 1983, and have remained more or less at this level since then. In other words, what Nicaragua can buy with its exports has fallen by one third since the revolution. This on its own would have been a major blow to the economy, but Nicaragua has also had to suffer the effects of a concerted programme of economic and military aggression organised by the government of the United States.

US Aggression

[9] Principally the EEC in the case of sugar, and China in the case of cotton.

Since Ronald Reagan was elected President of the US, he has been obsessed with defeating the Nicaraguan revolution, and he has regarded this as a touchstone of his government's commitment to reasserting US supremacy in the world. US intervention in Latin America is, of course, nothing new. In 1954, the CIA organised the overthrow of the democratically elected government of Jacobo Arbenz in Guatemala; in 1961 it organised the unsuccessful Bay of Pigs invasion against Cuba. In 1965, US Marines invaded the Dominican Republic in order to oust the moderate nationalist government of Juan Bosch; and in 1973, the CIA was involved in organising the overthrow of the democratically elected socialist government of Salvador Allende in Chile.

Shortly after Reagan assumed office in 1981, the CIA began to make contact with former members of Somoza's National Guard who had fled to Miami and Honduras. They then set about financing, training and organising them to form the armed counter-revolutionary force that has become known as the *contra*. From the outset, it was clear that the contra could not succeed in overthrowing the Sandinista government, and indeed, to this day, they have never managed to hold a single village or town in Nicaragua. The strategy of the United States has therefore been to try and undermine support for the revolution by focussing attacks on economic targets in order to produce a steady deterioration in popular living standards. The aim is to wear down the Nicaraguan people until they conclude, if reluctantly, that the price of supporting the revolutionary process is just too high. The efficacy of this approach was summarised by CIA director William Colby: "It takes relatively few people and little support to disrupt the internal peace and economic stability of a small country."[10]

The contra have been based just over the border from Nicaragua, with the main force in Honduras to the north, and a smaller number in Costa Rica to the south. From these bases, CIA officers have directed the contra to targets inside Nicaragua. The targets are

[10] Quoted in Peter Kornbluh, *Nicaragua: The Price of Intervention*, Washington, 1987, p. 7.

identified with the aid of sophisticated, high-flying spy planes which also help to pinpoint and avoid contact with the Sandinista army.[11] The main targets have been developments specifically associated with the revolution, including health centres, schools and cooperatives; key elements of the economic infrastructure, such as bridges, warehouses, and grain silos; and, above all, agricultural production, especially that destined for export.

The contra have never penetrated the western, Pacific plain, where most of Nicaragua's population live. Instead, they have concentrated their activities on the less densely populated areas in the centre and, especially, the north of the country. There they have specialised in attacking isolated farms and roads, often with great brutality. The main crops to have been affected are maize, beans and coffee. Maize and beans are cultivated in the north by peasant farmers, and many of them have had to move, so that the production and distribution of basic grains has been seriously disrupted. Coffee is also produced in the north, and because of the danger to workers and volunteer brigades, it has not been possible to harvest a large part of the crop in some years. There have also been attacks on productive targets in the largely uninhabited eastern half of the country. This huge area consists largely of jungle and is difficult to defend, and an important timber project and a gold mine have had to be temporarily closed.

In addition to attacks by the contra, the CIA has also mounted some operations using its own agents. The most important of these were a commando attack which destroyed the country's oil-storage tanks at the port of Corinto in October 1983, and the mining of the country's main ports during the first three months of 1984.

The economic cost of US aggression has been very substantial for Nicaragua (table 5). The cost of damaged infrastructure and lost production in 1983 is estimated to be $165 million; this increased to $217 million in 1984, before falling back to $165 million in

[11] By March 1986, the Nicaraguan authorities had already detected 469 such high-flying missions.

1985. For comparison, the total exports in 1985 amounted to only $299 million.

These figures show that contra attacks, which began began in 1982, escalated in 1983 and 1984. Sandinista policy was initially to use militia to engage the contra and to hold the regular army back to defend the country in the event of a direct US invasion. This changed in 1983 with the introduction of two-year military service for young males. During the course of 1984 a new army was recruited and trained, and in 1985 it went on the offensive. This succeeded in achieving what the government described as the strategic defeat of the contra. This meant that the large groups of contra were broken up and many of their bases were destroyed. However, even though contra units frequently found themselves on the run from an increasingly well organised Sandinista army, it was never the less impossible to prevent the infiltration of small groups that could mount hit and run attacks. However, an indicator of the improved military situation was that a large part of the coffee harvest could be picked at the end of 1985, something that had not been possible the year before.

The contra attacks on production represent one side of the squeeze on the Nicaraguan economy. The other side is that a large share of the output that remains has to be allocated to defence. Although the Sandinista army has been very successful, the economic cost has been high, and defence has accounted for about 50 per cent of government expenditure, which amounts to over 20 per cent of the country's GDP.

In addition to attacks by the contra, it has also been necessary to defend Nicaragua against the possibility of an invasion by US forces. Since mid-1983, the US has held an almost continuous serious of military exercises in Honduras. As one exercise has ended, another has begun and the US has used the exercises to construct a series of permanent airfields and field hospitals in the country. The largest of these exercises so far, in early 1987, involved 50,000 US personnel in a mock attack on Nicaragua. The

exercises have had several purposes: to provide logistical support to the contra; to wage psychological war against the Sandinistas; and to prepare the infrastructure for a possible real intervention.[12]

The US government has attempted to maintain pressure on Nicaragua through repeated "leaks" to the press by unnamed senior officials, claiming that direct intervention would definitely go ahead. However, the Sandinistas have devoted considerable attention to securing international legitimacy, and the US would find itself extremely isolated if it invaded. (The imposition of the trade embargo in May 1985 led to almost universal condemnation from Latin American and European governments.) The most important reason for US hesitation, however, is that the Sandinista government has had widespread popular support, and the US would face resistance, not only from the Sandinista army, but also from the large number of civilians who have had basic weapons training as members of the popular militias. An invasion would result in a high level of casualties on both sides, and, as Reagan discovered when he was obliged to withdraw his troops from the Lebanon, the US public will not tolerate military operations that result in the death of US personnel. But even if an invasion has been improbable, it could not be ruled out, and this has made it necessary to devote further resources to defence, and so contributed to the US strategy of squeezing the economy.

The one way that defence expenditure has contributed to the social transformation of the country is that it has included the setting up of settlements for peasants who lived in the war zones. It is true that some of the peasants that have been resettled did not wish to leave their former homes. But many of them lived in very marginal areas, with poor soil and little possibility of access to health or education services. The settlements provide them with a basic house, or materials and help to build one. Many settlements, although not all, have been provided with good quality land and there is also at least a basic provision of health care and education. Since they have come from the very poorest

[12] *Kornbluh*, Price of Intervention, p.144.

sectors of Nicaraguan society, the move to the settlements will in many cases have meant an improvement in their standard of living.

US aggression, together with the world recession would on their own have meant enormous difficulties for the Nicaraguan economy. There is however yet another major problem that has had to be faced: Nicaraguan society is in a process of social transition, and the government is striving to establish a viable economic alternative to the *somocista* model of under-development and dictatorship. There is however no clear example for the Sandinistas to follow. They have rejected the capitalist road which is being followed in the other countries of Central America, but there is no ready made alternative for them to follow. The Cuban model is not appropriate, even if the Sandinistas had wished to follow it, because Nicaragua, with its large peasant sector, is in many respects far less developed than Cuba was in 1959. The Sandinistas have therefore had to proceed by a process of trial and error.

The role of the state

The Sandinistas have supported the participation of mass organisations in the process of social change. The main organisations to have been established are the Sandinista Trade Union Federation, the Association of Rural Workers, the Peasants Union, the Neighbourhood Committees, and the Woman's and Youth Organisations. However, there is not a tradition of strong social institutions in Nicaragua, something that is probably related to the heritage of underdevelopment and the long years of dictatorship. Consequently, even though there has not been widespread nationalisation, the state has played an important role in promoting the process of social and economic transition. However, the effectiveness of the state has sometimes been hindered by inefficiency and a lack of coordination.

Many Sandinistas display a remarkable flexibility and commitment in their work. However, they are often very over-stretched and there is a great shortage of people with administrative or organisational experience - there weren't even enough people to manage the farms that were expropriated from Somoza in 1979. Many Ministries have therefore had to function using staff who do not necessarily share the same degree of commitment or flexibility. The lack of flexibility is partly due to an unwillingness to take initiatives or to run risks, although it is also sometimes encouraged by an atmosphere which makes individuals reluctant to take initiatives which have not already been sanctioned. Many of these features are not specific to Nicaragua, which is no more bureaucratic than the other Central American republics. However, in Nicaragua the state has taken on some tasks which in other countries are performed by the market. This helps to ensure that resources are not allocated simply on the basis of private profit, but the length of time that is sometimes required to complete all the necessary formalities, perhaps at several different state institutions, can be an obstacle to economic activity.

Part of the problem is a result of the difficulty of building up administrative structures that work, often with inexperienced staff in a field where there is no prior experience. The task of allocating foreign exchange, for example, requires a familiarity with the needs and priorities of different branches of the economy that take some time to acquire. When the shortage of foreign currency first became acute, it was allocated from week to week on the basis of immediate priorities, and there was sometimes no money available at the end of a year for such important items as insecticides and fertilizers, and the yield on export crops - and hence the next year's income - were reduced. But, with experience, the authorities have learnt to set aside sums at the beginning of the year, and a system has been built up that works far more effectively.

Another difficulty within the state has been a lack of coordination. A Ministry of Economic Planning was set up after the overthrow of Somoza, but it's initial attempt to develop a system of planning material balances didn't take sufficient account of the

continuing strength of market forces in Nicaragua. There was also no mechanism for ensuring that the economic policies pursued by other Ministries would be coordinated, either with the planning process or with each other. This was particularly true of the large and politically influential Ministry of Agriculture, which even after a general freeze on new investments was introduced in 1985, continued to initiate new projects. However, to varying degrees the problem of coordination extended to many of the other Ministries - Industry, Internal and External Commerce, Transport, Finance and the Central Bank. Each Ministry tended to follow policies that were developed in response to a particular pressing problem. This made it very difficult to establish an effective system of priorities, and Ministries could be competing for the same resources, or pulling in opposite directions. In order to achieve a greater degree of coherence in economic policy, the Planning Ministry was replaced in 1985 by a smaller Secretariat responsible to the President. At the same time an economic cabinet was established. This holds weekly meetings which are chaired by the President or Vice-President, and attended by a small number of the most important economic ministers.[13]

Labour

The basis of any economy is its labour force, and in contrast to other Latin American countries, a shortage of labour has developed in Nicaragua since 1979. There are a number of reasons for this. Agrarian reform has provided many rural workers with land of their own, and so they are no longer forced to seek waged work. In addition, migrant workers from El Salvador and Honduras, who used to be an important source of labour at harvest time, can no longer travel into Nicaragua. The two most important reasons for the labour shortage, however, have been the war and the rapid expansion of the informal economy.

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[13] In February 1988 the formation of a new Ministry with responsibility for Economic Policy was announced.

The need to give priority to defence, has meant that many of the Nicaragua's most able young men and women have had to devote themselves to military activities rather than the process of development. Out of an economically active population of about one million, perhaps as many as 100,000 are involved at any one time, in some sort of defence activity. In parts of the countryside, while some workers are farming, it is necessary for others to spend their time unproductively, standing guard in case they are attacked.

The growth of the informal economy has been most marked in Managua. Informal commerce has long existed in Nicaragua, and it received a big boost when the whole of Managua's town centre was destroyed by an earthquake in 1972. The recent growth of economic shortages has resulted in a further rapid expansion of informal commerce, and this has attracted workers away from factories and farms, because it is possible to earn more from buying and selling goods in the streets and market places than from a regular, waged job. One example of this is the fact that it was possible to earn more as a vendor of cold drinks in the streets of Managua than from the highest official salary.

One consequence of the labour shortage is that women have begun to carry out many of the jobs that were formerly done by men. A study conducted by women from the Rural Workers Union in 1985 showed that, as a result of the war, women had come to account for more than 50 per cent of the waged workforce in many branches of agricultural production - although men were still clinging to some of the more prestigious jobs, such as driving the tractors. Another example of this is that, because many male students have been drafted for military service, many of the medical students who graduate in the next few years will be women.

The general shortage of labour is at its most acute in the case of skilled workers and of technical, professional, and managerial staff. Nicaragua demonstrates just how

essential a qualified labour force is for any form of economic development, and, together with the shortage of foreign exchange, this is probably the most serious constraint that the economy faces. A shortage of qualified labour exists in any underdeveloped country, but in the case of Nicaragua, the shortage has been exacerbated by the fact that many professionals - who enjoyed a somewhat privileged existence under the dictatorship - have chosen to leave Nicaragua and go and live in the United States or Costa Rica, mostly because of their opposition to the revolutionary process. More recently, however, some professionals have begun to leave Nicaragua, not because they are hostile to the government, but because they are tired of the deteriorating economic situation, and see little prospect of any improvement.

The general shortage of labour resulted in an undermining of the wage policy that was initially adopted by the Sandinista government. The original policy had a strongly egalitarian element: essentially, the money wages of all except the lowest paid were frozen, and resources were instead channelled by the government into the provision of collective goods, in particular health and education expenditure and subsidies for basic foods and transport.[14] However, this policy was difficult to enforce, particularly among skilled and professional workers, who succeeded in getting round the freeze by changing their jobs. The government therefore responded by introducing a 28-point national wage scale during the second half of 1984.[15] Every job, from an unskilled worker to a senior professional or administrator, was assigned to a point on the scale, with the aim of ensuring that similar work would be paid at a similar rate anywhere in

[14] The freeze on money wages was opposed by trade unions associated with the three political parties to the left of the FSLN, which represent part of the small urban working class. The Sandinistas argued that these workers were already better off than some urban and rural social groups, and that policy should prioritise the poorest members of the popular sectors. The leftist unions, in turn, pointed out that capitalists were receiving guaranteed profits. Since 1982, when the State of Emergency was introduced following contra attacks, strikes have been illegal, although the government has usually tried to resolve those that occur through using persuasion and their political prestige rather than the law.

[15] The design of the system was strongly influenced by a similar system in Cuba.

the economy.

The introduction of the scale represented a shift in policy, since it involved an official acceptance of wage differentials - the ratio between the highest and the lowest point was about eight to one. Furthermore, while the introduction of the scales involved a general wage increase to compensate for inflation, professionals received a much bigger increase than manual workers. This was because, at the time, the government was most concerned at the number of professionals leaving the state sector. However, pressure from the Sandinista unions to increase manual-workers' incomes then mounted, and on the three occasions when wage scales were raised during 1985 to compensate for inflation, the increases was either more equal or they actually benefitted the lowest paid.

In addition to a shortage of labour, another major issue that Sandinista policy has had to cope with has been how to motivate people to work. This is one of the most fundamental problems faced by any economy, and it was analysed at great length by Marx in *Capital*. The principal means of making people work in a capitalist economy is the wage, and the fact that it is very difficult to survive without a wage. In the Soviet Union, where workers are guaranteed a job, and where they often have more money than they can spend, the wage does not discipline workers in this way, and getting people to work more intensively is one of the main issues concerning Mr Gorbachev. In Nicaragua under Somoza, labour was disciplined, not only by the wage, but also through the use of repression.

Since the overthrow of the dictatorship, the Sandinista government has not introduced a formal right to work, but, particularly within the state sector, it is very unlikely that workers would be sacked. And yet many of the jobs that have to be done remain tedious and often very tiring. Even the advanced capitalist countries, with all their wealth, have failed to provide the majority of workers with tasks that are intrinsically rewarding, and it is inconceivable that a small, underdeveloped country like Nicaragua will be able to do

so in the foreseeable future. Freed from the tyranny of *somocista* repression, there was, not surprisingly, a marked reduction in both the intensity of work and the length of the working day. Nicaraguan workers referred to this as their historic holiday. They were making up for all the years of super-exploitation.

While the reduction in work was a real gain for the country's workers, the extent of the decline was a serious concern for the government, especially since it was most marked in the state sector of the economy. The government's initial response was principally to make frequent appeals for people to work more, and, in some workplaces, workers voluntarily completed extra unpaid shifts at the weekend. But while countless men and women responded heroically in the struggle against Somoza, and, indeed, have continued to do so in the face of contra attacks, it is far more difficult to motivate people to rise, day in and day out, to the dull requirements of everyday work.

The government responded to this issue by extending the wage policy based on national scales to include a second stage. Workers continued to receive a basic wage, according to their scale, but in addition they became eligible for a bonus, either individually or in groups, if they completed more than a specified amount of work. This was introduced in the course of 1985, although in some jobs it proved rather difficult to establish standardised work norms. This was true in the case of tobacco processing, for example, and the whole approach was not very applicable to many of the tasks conducted by office workers, whose bonuses therefore came to be awarded on more subjective criteria. The original aim was that workers should be able to gain something in the order of an additional 30 per cent through the bonuses, although, under the pressure of inflation and the need to hang onto staff, many workplaces paid considerably more.

In 1986, after the system of bonuses had been in operation for a year, the Ministry of Agriculture claimed that the fall in the hours worked had been partly recuperated.

However, it can be seen that as a result of various changes, there has been a significant shift in the nature of Sandinista wage policy. It started with a freeze on individual money wages and an emphasis on expanding the provision of collective, social benefits, but it has come to place much greater importance on individual money wages, and, this happened at a time when, because of the war, the government imposed a freeze on social expenditures.

Prices

One of the central aims of Sandinista economic policy has been to ensure that basic consumption goods should be available to everyone in Nicaragua. To this end, one of the government's early moves was to introduce price controls for a range of basic goods and the key inputs necessary to produce them. Moreover, in the case of basic grains, the government subsidised the price, so that they were sold for less than their cost of production. However, despite the Sandinistas' intentions, it has in practice proved difficult to ensure that workers and peasants can actually get hold of goods at the official prices.

Firstly, the system of subsidies appears to have acted as a disincentive for some producers to cultivate basic grains. For example, farms which produced coffee or cotton, but which had previously also grown beans and maize to feed their workers, now found it cheaper to purchase the grain instead of producing it. By reducing the supply, this put more pressure on the rest of the food system, and as the general economic situation became more and more difficult, the government acted to lessen the disincentive by reducing the subsidies in 1984.

Secondly, because basic grains are grown by a large number of peasants, and distributed through a large number of small-scale traders, it has been very difficult to enforce the

system of official prices. Commercial intermediaries would go out to the countryside and offer producers slightly more than the official purchasing price for, say, beans; they would then take the beans to Managua and sell them at a much higher price, either directly to consumers or to a trader in one of the city's markets. The intermediaries could accumulate large profits, but when workers went to buy beans at the official price, they would find that none were available, and they would have to go to the markets and pay much more than the official price. Selling goods above their official price is technically illegal, but, with so many small traders, it is very difficult to prevent. The Ministry of Internal Commerce has some inspectors, but they are far too few, and, although the government has tried to mobilise a system of people's price inspectors, this has never worked very successfully.

A similar problem occurred in Cuba, and there it was dealt with by nationalising the country's entire commercial system. The Cuban leadership is said to have subsequently considered this a mistake, and it is also reputed to have made an adverse impression on some of the FSLN's leadership, who, as young, exiled revolutionaries, had depended on street vendors in Havana for cheap meals - until they were all closed down. In any case, nationalisation was not considered a viable option in Nicaragua, since the government didn't have the staff to run the enterprises already in the hands of the state.

In order to try and ensure the distribution at official prices of a small number of the most important basic goods, the Sandinistas evolved a system known as the territorial network. This was intended to ensure that everyone would have access to a minimum supply of six items: beans, rice, sugar, cooking oil, salt and soap. The system was supervised by the neighbourhood committees, which issue each household with a card showing the number of residents.[16] The card entitled the household to purchase a

[16] The neighbourgood committees, or Sandinista Defence Committees (*CDS*), sprang up spontaneously in the course of the struggle against Somoza, organising food supplies and first aid. Subsequently, they served as an important form of self organisation, especially in popular neighbourhoods, and helped to achieve better housing and other services through a combination of

certain minimum supply of goods once a fortnight, usually from a local corner shop selected by the neighbourhood committee. The local shop, in turn, is responsible for collecting the supplies from the wholesalers, which have been nationalised, and are run by the Ministry of Internal Commerce. The system was built up through a process of trial and error, and at times it attempted to distribute a wider range of goods, and this led to some confusion as to what people were actually entitled to. People often reported that some item or other had been unavailable the previous week, and in addition the quantities were not always sufficient to last a full fortnight. But, at its best, the system did succeed in delivering a basic entitlement of most of the six items for most of the time, and while this might not have been a big deal for the middle-class, for some of Nicaragua's population it provided access to goods, such as cooking oil and sugar, which had not previously been available.

At the beginning of 1986, however, beans were excluded from the system, which was cut down to five items. This was an admission by the government that, despite all its better efforts, it was simply unable to guarantee a regular supply at official prices. And since then, the increasingly difficult economic situation has meant that other items on the list have also been unavailable more often, and workers have had to turn more and more often to informal commercial channels where prices are much higher.

While the government has attempted to establish a system of official prices, there has emerged another set of much higher prices, resulting in a dual standard of price in the country. There is on the one hand the system of official prices, which is linked to the official exchange rate of the córdoba against the dollar. The government deliberately kept this rate high, precisely in order to ensure that imported basic goods would be cheap. But because foreign exchange was in short supply, it had to be rationed by the

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collective self-help, and demands upon the government. Since the economic situation has deteriorated, the government has been unable to respond to demands for resources, and the committees have become much less active.

government, and the first items to suffer were the non-basic goods imported principally for the benefit of the middle class and the bourgeoisie.

The shortage of dollars at the official exchange rate led to the development of a black market where the córdoba was valued at far less than the official rate. By the end of 1983, the black-market rate was already five times lower than the official rate, and it subsequently fell to more than twenty times below the official rate. The black market was technically illegal, although in practice it was tolerated by the government, partly because it provided a safety valve, enabling the middle class to buy imported consumer goods and to travel abroad, if at a relatively high price. In fact, the government licensed small-scale traders, known as *buhoneros* (pedlars), to trade with Costa Rica, Panama and (until the US trade embargo) Miami. They exported Nicaraguan craft products, and imported goods that were unavailable in the country, selling them at prices based on the black-market exchange rate.

So long as the much higher prices applied to non-basic goods, the situation could be considered an acceptable compromise. However, as the economic situation deteriorated, more and more goods came to be in short supply through official channels, such as the state owned super-markets, and the higher price level spread to encompass an increasing number of items sold in private shops and markets. As a result, important items of popular consumption, such as food, clothing and household utensils, also came to be priced on the basis of the black-market exchange rate.

The existence of this dual standard of price caused a number of economic problems. First, it made it difficult to know what was actually going on in the economy. For example, it was possible that a farm would be able to buy a tractor at the official price level, but have to go to the private market to buy a typewriter, which could consequently cost more than the tractor. Or, because of the shortage of spare parts at official prices, and their very high cost in the private market, it could appear cheaper to buy a new

machine rather than repair one that had broken down. In general, it became difficult to assess the contribution that particular enterprises - whether state or private - were making to the economy, since they could show a loss in córdobas, when they were in fact making a real contribution to the economy, and *vice versa*. This is not meant to imply that every enterprise should be required to make a profit, but rather that if it is not clear which enterprises are making a loss, then it is impossible to make informed decisions about the allocation of resources.

Second, the existence of dual prices led to intermediation - buying goods at official prices and reselling them at the higher, private-market prices. At one level, this enabled some of the very poorest families to earn a little money - when the state-owned supermarkets still stocked chickens, young children in bare feet would line up and buy one, and then go and sell it at a profit in a nearby market.

But a serious consequence is that intermediation has attracted workers away from regular waged work. Daily life is a constant struggle for many people in Nicaragua, especially in Managua, which has been spread out over a huge area since the original city was destroyed by the earthquake, and public transport is completely overstretched. Searching for goods that are in scarce supply can be an exhausting and demoralising business, and the possibility of providing more for dependents is a strong inducement for workers to turn to informal commerce. By queuing for a few hours outside one of the city's bakeries, for example, it was possible to buy up to five loaves, which, when resold on the street, would earn more than the official minimum wage. More qualified workers, who knew how to get hold of scarce spare parts, were in an even better position to increase their earnings by turning to informal commerce. The attraction of informal commerce has made it difficult for many enterprises to hold onto their workers, particularly if they are skilled.

The growth of informal commerce has resulted in the emergence of some traders who have accumulated sizeable fortunes. One sign of this process is that some traders have used their newly-acquired riches to buy up farms - a process that has facilitated the departure of capitalist farmers who wished to sell up and leave the country.

The third problem to result from the dual standard of price, is that as more and more goods have only been available at the higher, private-market price, this has resulted in a serious fall in the real value of the wage.

Money and Inflation

In 1979, prices had increased by nearly 50 per cent as a result of the economic disruption caused by the insurrection. However, in the next two years, as domestic production resumed, and foreign loans helped finance imports, inflation declined and by 1981 it had fallen to 25 per cent. Nevertheless, rapid expansion had led to the emergence of serious imbalances within the economy, and in 1982 the government introduced its first adjustment programme. This was designed to reduce the foreign trade deficit, and the tensions which were still causing a relatively high level of inflation. The price paid to the - predominantly capitalist - export producers was increased; the price of non-essential imports was raised; and the amount of credit supplied to the private sector was reduced. The measures led to a decline in non-basic domestic consumption and in investment, and the trade deficit fell by two thirds. However, any potential benefits this might have achieved were offset by a fall in world prices and the need to increase government expenditure, mainly because of defence, but also because the damage caused by hurricane Aletta in May and the draught that followed.[17] Inflation remained at just under 25 per cent in 1982, but then it began to increase, reaching 31 per cent in 1983 and

[17] This natural disaster was instrumental in leading to the condoning of outstanding peasant debt in 1983, some of which dated from the days immediately after the overthrow of the dictatorship, when enthusiastic government activists had descended on the countryside to ensure that peasants benefited from the newly introduced Rural Credit.

35 per cent in 1984.

The rising rate of inflation was facilitated by a big increase in the amount of money in circulation. One reason for this was that government expenditure increased dramatically, reaching 6l per cent of GDP in 1983. Only half of this was covered by taxation and other income,[18] and there was consequently a deficit which amounted to 30 per cent of GDP. A quarter of the deficit was financed by foreign aid or loans, but the rest was financed by the Central Bank, *ie.* by issuing money. The deficit has since fallen slightly as a percentage of GDP, although the proportion financed by the Central Bank has risen.

The big increase in government expenditure was due principally to spending on defence, and on the ambitious programme of investments in the public sector. The investment programme was initiated when substantial foreign finance had appeared to be available, and the availability of such finance was instrumental in the selection of projects. Yet, by the time the programme began to be implemented, foreign finance was less easy to secure, and the projects have depended at least in part, on internal financing. Furthermore, the investments were mainly in large scale projects which would take some five to eight years to complete. During this time, the government had to provide the finance, thereby increasing the demand for skilled labour and building materials, while the projects were not making any productive contribution to the economy.

A second reason for the monetary expansion was that many state enterprises were running at a loss. They were borrowing money from the banking system to finance their activities, but were then unable to repay it, and the backlog of unpaid loans eventually had to be assumed by the government. This applied particularly to state farms. These made a loss, partly because of inefficiency, but also because they were initially geared to

[18] About 75 per cent of taxation is indirect; the infrastructure for capturing direct taxation is not well developed.

maximising output, and it was only later that attention began to be paid to financial balances. In addition, working conditions were often better than in the capitalist sector. The rural workers union has a long list of demands, and on state farms these would often be met. Workers usually received regular refreshment and all their meals for free; in addition housing would often be provided and in many cases there would be some type of health centre, and possibly a child-care centre or a school.

A third reason for the monetary expansion was that the guaranteed prices paid to the producers of agricultural exports resulted in a loss for the state. The export agencies received foreign exchange when they sold the products on the world market. But when this foreign exchange was changed for córdobas at the official exchange rate, it was not enough to pay the guaranteed price to the producers, and the difference was made up with money issued by the Central Bank. In 1983, for example, the world price of cotton amounted, when exchanged at the official exchange rate, to just under two-thirds of the price paid to the producers. As a result of the fall in world prices, the losses incurred in this way increased from 5 per cent of GDP in 1982, to 13 per cent in 1983.

The creation of money by the Central Bank to finance these different deficits caused a sharp rise in the amount of liquidity in the economy. This is illustrated by the ratio of liquid assets (cash plus current account deposits) to GDP, which increased from around 35 per cent in the early 1980s, to 51 per cent in 1983 and 65 per cent in 1984. Given the combination of price controls in official channels, together with a shortage of goods, this excess liquidity was reflected in the rising price of goods in unofficial commercial channels and in the falling black-market exchange rate of the córdoba. As a result of the rapid increase in prices, by the end of 1984, the real value of wages had fallen by about 30 per cent since 1980. Furthermore, the uncontrolled growth of informal commerce was threatening to undermine the whole economic strategy of the government.

PART 3: ECONOMY OF SURVIVAL

In February 1985, almost immediately after the newly elected Sandinista government had been inaugurated, a major economic adjustment programme was announced. The programme was conceived as a "market shock". It was intended to give the economy a big jolt in an attempt to shake out some of the imbalances which had been building up. The stated aim of the programme was, first, to ensure that resources would be available to meet the needs of defence, and, second, to defend the standard of living of the popular sectors.

The programme involved a wide range of initiatives. One set of measures was intended to strike at the informal sector and make it less attractive, so that resources could be redirected to the formal sector and so help boost production. To this end, the official prices for a wide range of goods were increased significantly - up to 100 per cent in some cases - in order to stimulate production for sale through official channels. At the same time, the official wage scales were also increased by a comparable amount, so that waged workers - unlike members of the informal sector - would be compensated for the rise in prices. The government also proposed to expand the system of secure channels, so that waged workers would have access to an increased range of goods at official prices. The neighbourhood-based territorial network would continue to supply basic foods to everyone, but, in addition, waged workers would also be able to buy the next level of essentials, such as toothpaste, toilet paper, sanitary towels, and basic clothing and footwear. It was originally intended that these would be distributed through the workplace, but this proved impractical, and so special stores were opened instead.

A second set of measures was designed to reduce the government deficit: taxes were raised and it was announced that subsidies would be eliminated. The subsidy on basic

grains, which formed an important part of the Sandinista's early policy to meet basic needs, had already been reduced in 1984 because it had come to be perceived as a disincentive; now, because of the pressing financial situation, subsidies were to be cut entirely, although in practice milk and transport continued to be subsidised.

A third set of policies was intended to reduce the excessive liquidity in the economy. The official exchange rate was devalued from 10 to 28 córdobas to the dollar, although the use of multiple exchange rates meant that transactions were also conducted at 20 (essential basics and raw materials), 40 (capital goods), and 50 córdobas to the dollar (services). In addition, interest rates, which also varied for different classes of borrower, were raised.

Finally, the government announced that it would take a much tougher line on controlling prices, and in order to draw a clearer line between legal and illegal markets, it introduced a legal, parallel market in foreign exchange. This opened at the same rate as the black market - about 500 córdobas to the dollar - although it subsequently failed to keep up with the fall in the black-market rate.

The introduction of policies directed against the informal sector meant that the government was, for the first time, acting against part of its own social base. While the informal sector includes some commercial intermediaries who have made a lot of money, it also consists of many small-scale traders who support the revolution, and who have benefitted from its social programmes.[19] Furthermore, many of those affected were women, who had chosen this type of work partly because it could be combined with child care. There was also some disquiet at the way productive activities were emphasised. According to one estimate, as much as 40 per cent of the informal sector's activities consist of small-scale production. Furthermore, while it was clearly essential

[19] Some of the market traders who charged prices that were undermining government policy, would also willingly forgo their income for a month in order to participate in volunteer brigades to pick coffee.

to boost production in the formal sector, it was also important not to undervalue other jobs that were also necessary, such as in the health and education sector, and even the jobs that were necessary in the sphere of distribution. In fact, while the new special stores were originally intended to serve only workers in directly productive activities, in practice the government's egalitarianism won out over its productivism, and most waged workers and professionals won the right to use them - with the result that they were hopelessly overstretched, and therefore failed to provide the degree of benefit that had been planned.

The adjustment programme was most successful in ensuring that resources were transferred to the sphere of defence, and defence expenditure from 16 to 21 per cent of GDP. The programme was less successful in boosting production, and output continued to fall, particularly in the case of industry and agricultural exports. The government deficit fell, although not by as much as planned (partly because of new investments, which were supposed to have been frozen), and the excess liquidity was reduced, although again not by as much as planned. The impact of the measures on the growth of informal commerce was difficult to assess, but it may have slowed its expansion. The least success was registered in reducing inflation, which increased to 200 per cent in 1985. Consequently, despite the increases in the official wage scale, the real value of the wage fell to around half of its 1980 value.

The policies initiated in 1985 were continued in 1986. Prices and wages were both raised, and the official exchange rate was devalued from 28 to 70 córdobas to the dollar. Once again, there was a decline in production, particularly of agricultural exports, and the inflation increased to nearly 700 per cent. According to official figures, this implied a further very severe fall in the real value of the wage. However, figures for the per capita consumption of basic goods show a slight improvement. This is partly due to the large difference between official prices and private-market prices, but also to the fact that

most households had come to rely on several different sources of income to survive. Employment in a waged job brought a low income, but ensured access to at least some goods at official prices; on the other hand, participation in the informal sector provided the much higher level of income that was needed to buy goods that could only be found in the private market. Nevertheless, the reality of daily life in the cities was very difficult as the war dragged on and shortages became steadily worse. The situation in the countryside was also difficult, although in some rural areas the situation was beginning to change as a result of a major shift in economic priorities.

The turn to the peasantry

Sandinista policy has always involved a process of trying to balance competing interests. As the war came to dominate policy, there was initially a tendency to slow the process of social transition, partly because of the need to devote resources to defence, but also to further national unity and avoid antagonising the bourgeoisie. Thus, at the end of 1984 one of the leaders of the FSLN leader told a meeting in a key northern region that the process of agrarian reform had been completed. However, as the military and economic situation deteriorated, the space for making concessions became increasingly restricted, and the government was faced with the need to make clear choices between the interests of different social groups. This resulted in a change of direction which involved three main features, the most important of which was a radical new phase of agrarian reform.

Since 1979, there have been four distinct phases of land reform.[20] The first occurred immediately after the overthrow of the dictatorship, and involved the nationalisation of the land belonging to Somoza and his closest associates. This land was used to form the state farms of the Area of Peoples Property. The second phase began in 1981 when,

[20] For an good analysis of the early stages of agrarian reform see Carmen Diane Deere, Peter Marchetti & Nola Reinhardt, 'The Peasantry and Sandinista Agrarian Policy, 1979-84', *Latin American Research Review*, Autumn 1985.

following demands by the rural workers union, an agrarian reform law was introduced which made farms over 350 hectares liable for expropriation if they were under-utilised or left idle.[21] The land expropriated under this law was mainly used to form cooperatives. The third phase did not actually involve the distribution of any land, but rather the granting of tenure to individual peasants who were already farming land in the mountainous regions, but without any security. This included many peasants who had been displaced from the Pacific region during the dictatorship.

The fourth phase of agrarian reform began in the early summer of 1985. Landless peasants in the rich agricultural region of Masaya, about 20 miles south of Managua, began demonstrating for land. This traditionally pro-FSLN group argued, angrily, that they had been waiting since 1979 for land, and that the large capitalist farms in the area should be divided up between them. The government had always resisted demands to divide up large modern farms, because they believed it would led to a fall in productivity. Now, however, the government agreed to the peasants' demands, and all but one of the capitalist farmers - the leader of the anti-Sandinista private business organisation - agreed to cooperate in return for land in the interior of the country.

Following the success of the peasants in Masaya, landless peasants in other parts of Nicaragua also began to demonstrate for land, and towards the end of the year, the FSLN daily newspaper, *Barricada,* began to carry features describing how some of the big families had acquired their land over the previous century - a sure signal that a change was due.

The change came in January 1986, with the introduction of a new agrarian reform law. The size restriction specified in the 1981 agrarian reform law was abolished, so that farms of any size could be expropriated if they were left idle or underutilised. More

[21] At the time, the rural workers union (ATC) represented peasants as well as agricultural workers, although shortly afterwards the peasants set up their own separate organisation (UNAG).

important, the new law permitted the expropriation of productively used land if it was necessary to meet a social need that could not otherwise be met. Whereas the earlier agrarian reforms had been directed against the Somoza oligarchy, and then against the large-landowning *latifundistas,* now for the first time it was proposed to take land from capitalist farmers, even if they were using it productively, if there was no other way of providing landless peasants with the means to farm. Another key feature of the new phaze was that, whereas in the past land had been distributed to peasants to farm cooperatively; now they could chose to take it in the form of individual holdings if they preferred.

The introduction of the new agrarian reform law occurred at the same time as a significant change in policy towards state farms. In 1985 the Minister of Agriculture had told the directors of state farms that the government could not go on supporting farms that made a loss, and subsequently land from the state sector also began to be handed over to peasants to farm, either cooperatively or individually.

The new agrarian reform aimed to provide peasants with as much land as they could work. The amount that was distributed to each family ranged from an average of about 10 hectares in the agriculturally-rich Pacific region of Masaya, where peasants could grow crops, to just under 50 hectares in the interior, where the main activity was cattle rearing. In 1986, a total of 236,000 hectares was distributed to nearly 16,000 families, of which roughly half came from the private sector and half from state farms, and, in 1987, another 124,629 hectares was distributed to 9,300 families. As a result of the new land distributions, the area occupied by farms with more than 350 hectares fell from 13 to 9 per cent of the country's total, and the area occupied by state farms fell from 19 to 12 per cent.

The principal reason for the new agrarian reform was the need to guarantee the social base of the revolution in the countryside, particularly in areas where the contra could

penetrate. The government's former emphasis on investing in modern, state farms, had meant that in the rural interior, peasant production had in many cases been largely untouched by the progress of the revolution. Now, by meeting the the demand for land, peasants were being provided with a very direct material stake in the revolution. This turn in strategy was graphically illustrated at local meetings where President Ortega would with one hand give peasants the deeds to their new land, and with the other hand, a rifle to defend it with.

A second factor behind the new agrarian reform was a growing realisation that the war could continue for a long time and that it was necessary to dig in and establish what was termed an economy of survival. At the very least, this implied being able to produce sufficient basic food to feed everyone, and the redistribution of land from the capitalist sector to the peasant sector usually resulted in a shift of production from agricultural exports to basic foods.

There were also two other factors that bear on the shift towards basic foods. First, the fall in world prices meant that agricultural exports were not earning very much in any case - cotton was actually earning less than the cost of the imported inputs used to produce it. Second, in 1985 the Soviet Union increased its aid to Nicaragua, and this meant that the economy was less dependent on the world market for such key imports as petrol and industrial raw materials.

Prioritising the Countryside

In addition to agrarian reform, the new turn in policy also included two other main features. First, the price of basic grains was increased very significantly in relation to other goods. Whereas policy had formerly emphasised the provision of cheap food, the priority now became to stimulate production and to reward the peasant producers, who

include many of the country's poorest citizens. It was initially announced that the price of basic grains would be completely freed, and that producers would be legally permitted to sell to whom they chose, although inter-regional trade remained prohibited. This meant that the state marketing board would have had to match the prices offered by private traders. In practice, deals were negotiated on a local basis with the peasants union whereby the producers sold part of their harvest - usually around 50 per cent - to the state wholesale company at an agreed price, and the rest to private traders. The incentive to sell to the state was that peasants could then gain preferential access to other goods at official prices.

The final feature of the new policy was that the state began to prioritise the countryside when distributing goods through official channels. This meant that when there were shortages, rural areas where to be given preference over the towns. The policy did not reach the whole of the countryside, but where it was effective, it enabled peasants to buy items such as basic clothing, rubber boots and machetes, at prices that could be twenty or thirty times lower than the price charged by private traders.

This attempt to improve the supply of goods to rural areas was complemented by the launch of the peasant union's own rural distribution network. Based on regional depots, it aimed to provide a supply outlet in every village in the countryside. The members of the union would be able to deposit the grain they wished to sell to the state at these points, and also buy both means of production (seed, fertilizer, farming implements) and basic consumption goods at official prices. The scheme was initiated in one of the central regions of the country, and the union hopes to expand it, with the goal of covering every rural area. By drawing on its existing infrastructure, the union appears to have been more effective than the state's own network, and the initiative has been strongly welcomed by the government. The union saw the scheme as a major strategic initiative that responded to one of the most pressing problems facing its members. But

it also saw the scheme as an initiative that could help to overcome some of the wider problems that had resulted from declining production, and therefore as a contribution to shaping the still evolving direction of the revolution.

The new turn in government policy resulted in a significant change in the political balance between the different sectors of the mixed economy. Originally, the state sector, although relatively small, was seen as the key to the country's development, and it was in this sector that the large investment programme was concentrated. The capitalist sector was seen to be necessary, particularly because of its contribution to exports, and it was therefore encouraged with various incentives. The peasant sector was considered to have suffered the most from *somocista* underdevelopment, and it was provided with benefits, including health and education services and rural credit, but it was not viewed as an important productive resource. When the government had wanted to increase basic food production, it had looked to investing in expensive irrigation systems on large, mainly state, farms. The new policies implied a shift in emphasis, away from the state and the capitalist sector, and towards the peasant sector, which now became seen as an important source of production. In addition to the political motives for winning the support of the peasants, the government hoped that by boosting the output of basic foods, it would be possible to break the vicious spiral of shortages that was leading to falling output in agriculture and industry.

The new turn was also reflected in the attitude to the large investment projects. In December 1985, a central system for controlling all investment expenditure was established, and, although the government considered themselves committed to the existing projects, it recognised that small-scale investments, such as providing additional machines for a textile co-operative, could make a greater immediate impact on the existing economic situation.

The new policies meant that in some parts of the countryside, the standard of living

began to improve. In the towns, however, the rising cost of food, and the policy of prioritising the countryside, meant that daily life became yet more difficult.

The Economic Need for Peace

Following the turn in policy towards the peasants, a small increase in the production of basic food was reported for 1986, although a shortage of transport meant that not all of it could be collected. Never the less, lower export production and a lack of imported inputs for industry resulted in a slight decline in the overall level of output, and this was reflected in the official figure for GNP, which fell, although only by 0.4 per cent.

A further increase in the production of basic food was also suggested in 1987 by the maize harvest, which was the largest ever recorded. However, the vulnerability of the economy to climatic conditions was demonstrated by the the fact that the harvest of beans and other foods was affected by a serious drought. Despite this setback, agricultural output for the domestic market is estimated to have increased by 5.7 per cent, and for export by 1.5 per cent. However, as a result of a further decline in the industrial sector, he overall level of output, as reflected in GDP, is estimated to have risen by only 1.7 per cent.

Industry has suffered partly from the effects of cumulative dislocation as old machinery and equipment continues to deteriorate; it has also been hit by a lack of foreign exchange. Although export earnings increased slightly over the previous year, they still only paid for about a third of imports, and the difference has to be financed by aid and credits. One of the principal restrictions to emerge in 1987 as a result of this was a shortage of petrol. The country needs about 760,000 metric tons a year, and its existing agreements - mainly with the Soviet Union - provide 500,000 metric tons. The shortfall resulted not only in problems of transport, but also in cutbacks in the supply of

electricity, which is partly generated using petrol. Each district of Managua had faced at least two days a week without water for over two years - a long standing measure resulting from the depletion of reserves and the breaking down of electric pumps. By the end of the year, residents and industrial enterprises also had to contend with regular power cuts.

The most striking indicator of the tensions in the economy was the rate of inflation. According to government estimates, this rose to 600 per cent in 1986 and to 1,200 per cent in 1987. The private markets in Managua carried a wider stock of clothing, utensils and even electrical goods than they had for several years, but the prices were quite beyond the income of anyone employed on the official wage scales. The official wage scales had been periodically revised, but in line with official prices and not those of the private markets, which were the only place that many items were available. By the end of the year, the spiraling price level had resulted, not only in greater hardship, but also in a widespread sense that the economy was out of control.

On the military front, the Sandinista army had continued to inflict defeats on the contra forces. The contra was also weakened in 1987 by the refusal of the US Congress to provide them with further military aid. Never the less, despite the Sandinistas' military strength, the nature of the conflict makes it very difficult to eliminate contra attacks in isolated areas. The government was therefore faced with the prospect of a military success, but a success that could not guarantee complete safety throughout the countryside, and whose economic cost was threatening to dissolve the basis of its domestic political support, especially in the cities. There was therefore an increasingly pressing need to end the war so that resources could be diverted to rebuilding the shattered economy. A particular impetus for this is the fact that general elections are scheduled for 1990.

In August 1987, Daniel Ortega represented Nicaragua at a meeting of Central American Presidents in Guatemala that had been initiated by the social-democratic President of Costa Rica, Oscar Arias. This resulted in the signing of the Esquipulas II Peace Accord which established a procedure for moving towards peace in all the countries of Central America. The Accord was initially condemned by US President Reagan, but as it received increasingly wide international support, the US government was obliged to adopt a more positive public position. As a result of the Peace Accord, which calls for an end to all foreign military supplies to irregular forces in Central America, Democrats in the US Congress refused a request from Reagan for further military aid to the contra.

In November, the Nicaraguan government offered to hold indirect talks with the contra to establish a ceasefire, and a first round of talks was held in December in the Dominican Republic with the Nicaraguan Cardinal, Miguel Obando, acting as mediator. Following further indirect talks in February 1988, the government broke with its long standing refusal to negotiate directly with the contra, and in March direct talks were held in the Nicaraguan village of Sapoa, just over the border from Costa Rica, where a agreement was reached for a 60 day cease fire. The contra had lost large quantities of supplies in a highly successful Sandinista army operation in Janaury, and in February the US Congress again refused to supply more military aid. Militarily weakened, and unsure about how much support they would receive from the US, the contra leadership was divided about whether it should continue to fight, and splits had developed both within the military hierarchy and between elements of the military and political leadership. From a strategic point of view, these divisions are obviously favourable to the Sandinista government; however, it also implies that a peace agreement that is arrived at with some of the contra leadership may not be accepted by all their forces.

Monetary Reform

After a period in which the Sandinista's attention was primarily focussed on achieving a

ceasefire, in February 1988 the government launched a major economic initiative.[22] The centrepiece of this was a reform of the monetary and price system. First, there was a massive devaluation of the official exchange rate from a range of 70 to 370 córdobas/dollar for imports and several thousand córdobas/dollar for exports, to a single, unified rate of 10,000 córdobas to the dollar. This was intended to close the huge gap that existed between the official exchange rate, and the black-market exchange rate, then running at 20 - 30,000 córdobas to the dollar. Having established a more realistic level for the official exchange rate, it was also stated that exporters would be paid the world price of their commodities converted at the new rate, and that the large córdoba subsidy that the state had been paying to export producers would be ended.

Second, the official schedule of prices was raised by an average of about 300 per cent, and that of wages by between 300 per cent at the lower end and over 600 per cent at the high end. This less egalitarian shift, reflecting the government's concern to keep its professional staff, resulted in an increase in differentials from 7:1 to 15:1.

Third, the government announced a currency reform in which a new córdoba replaced 1,000 old córdobas. The exchange of old for new money was announced on a Sunday evening and carried out over the next three days with remarkable efficiency. Each household could exchange up to 10 million old córdobas ($1,000 at the new rate of exchange) for cash and any further amount was credited to an account where it would be redeemable at some stage if its origin could be verified as legitimate. The reform succeeded in reducing the amount of money in circulation by almost 20 per cent, about half of which was deposited with the authorities, while the other half was not presented for exchange, presumably because it was held either by speculators or by the contra.

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[22] I am grateful to Richard Stahler-Sholk for the information in this section; in particular I have drawn on his paper 'Stabilization, Destablization and the Popular Sector in Nicaragua', presented to the LASA Conference, New Orleans, March 1988.

A week after these measures were introduced, the government announced plans to cut its own expenditure by 10 per cent through a merging of ministries[23] and the laying off of personnel, ostensibly with the aim that they should transfer to work in the productive sector of the economy.

The anouncement of the measures, and in particular the efficiency with which the currency reform was implemented created a widespread sense of government purpose and authority in the economy. The monetary reform also reduced liquidity and dealt a sharp blow to many commercial intermediaries who had illegitimately accumulated large fortunes. But while the measures were intended to improve the purchasing power of wages, it appears that the combined impact of the changes together with subsequent increases in private-market prices has resulted in a further fall in the value of average wage of manual workers. This is partly due to the fact that the largest wage increases were at the top of the salary scales and differentials therefore increased.

The enormous gap between official prices and private-market prices has been closed, although in many cases it was not been eliminated. Beans were reported to be selling for three times the official price, and, shortly after the introduction of the measures, the key black-market rate for the dollar had already reached seven times the official rate. The state does not posses the means to impose official prices, and although there was a new emphasis on popular price control, previous experience suggests that this would be difficult to maintain in the face of shortages.

The February measures were followed by another package in June 1988, which attempted to deal with the continued imbalances in the economy. The official exchange rate was devalued by eight times, and it was announced that in future it would be regularly adjusted. It was also announced that price controls and remaining subsidies

[23] The Minstries of Industry and Internal and External Commerce were merged to form one new ministry; and the Ministries of Construction, Transport and Housing were merged to form another.

were to be ended, and that the official wage scales were to be abolished for private and state enterprises. Finally, there was a major shift towards allocating credit on more market criteria by introducing interest rates that were positive in real terms. These changes mark the largest step yet towards a liberalisation of markets, and their introduction is an indication of the desperation that is felt by the government. In the short-term the measures are likely to have a regressive impact on the distribution of income. The extent to which they succeed in stimulating agricultural production remains to be seen.

In conclusion

The Sandinista government considers itself to be socialist, but it has not claimed to be constructing socialism in Nicaragua. This is partly because socialism was generally understood to mean widespread nationalisation and central planning, and for both political and economic reasons, these were not considered to be feasible. Instead, the government has referred to Nicaragua as being in a process of social transition, without specifying exactly what it is in transition to. Economic policy has therefore been shaped by certain priorities, of which defence and popular living standards have been most important, but it has not been guided by an overall strategy. This has at times resulted in a lack of direction, but it has also permitted considerable flexibility, to the extent that it has led to shifts in how the long-term goals of the revolution are conceived. The clearest example of this is that whereas the state was originally seen as the key to economic and social development, much greater emphasis has come to be placed on the country's small producers.

One of the major obstacles that the process of social transition has had to face has been the armed aggression organised by the United States. The defence of the revolutionary process against this intervention by the most powerful state in the world is a major

achievement by the Nicaraguan people, and it demonstrates the widespread popular support which exists for the government. However, by the end of 1987, the war had claimed 50,382 victims, and the early hopes and aspirations have been soured by the prolonged hardship caused by the war. The contra are militarily weak and politically divided, and at least some of their forces seem likely to adhere to a ceasefire. But many of the contra leaders stem from Somoza's National Guard. They cannot expect to participate in any internal political settlement, and it is likely that at least sporadic attacks will continue for a number of years.

As a result of the war, many of the improvements in living standards introduced after the overthrow of the dictatorship have been eroded. However, the economic problems which have faced the Sandinista government are not simply attributable to the war. The mixed economy always involved a number of contradictions, most notably that the bourgeoisie continued to control key sections of the means of production, although they were largely hostile to the aims the new political system. The large-scale investment programme has been a huge drain on resources, and it's focus on the state sector meant that the economic conditions faced by the country's numerous small-scale producers were, for a long time, left largely unchanged. Finally, the government found that it's attempt to keep basic goods cheap through a system of price controls was continuously subverted by a widepread network of private markets. It is important to note that these problems are not specific to Nicaragua, and similar issues have arisen in other third world countries that have embarked on a process of social transition.[24] The difficulty arises from trying to develop economic policies that can actually succeed in establishing greater social control over the economy, so that resources can be turned to the advantage of the country's workers and peasants. The strugggle to find such policies will continue when the war in Nicaragua is finally over.

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[24] For a very godd analysis of these issues in relation to Mazambique see Maureen Mackintosh and Marc Wuyts, 'Accumulation, Social Services and Socialist Transition in the Third World: Reflections on decentralised planning based on Mozambican experience', Open University, DPP Working Paper, No. 9.

Table 1: Ownership structure of Production, 1983 (% of GDP)

	State	Capitalist	Small Producers	Total
Export agriculture	28	42	30	100
Domestic agriculture	19	15	66	100
Cattle	20	12	68	100
Industry	28	49	23	100
Other production	90	5	5	100
Government	100	0	0	100
Commerce and Services	38	12	50	100
Total	40	29	31	100

Source: Eduardo Baumeister & Oscar Neira in Richard Fagen et.al. (ed), *Transition and Development: Problems of Third World Socialism* (Monthly Review Press, 1986)

Table 2: Diversification of International Trade (%)

	1974-77	1980	1984	1986
Central America	22.8	28.1	9.2	5.3
South America	8.9	13.4	12.7	6.0
Western Europe	19.7	17.6	25.0	35.0
USA	28.2	30.4	14.9	-
Japan	9.8	3.1	9.9	5.8
Canada	0.8	2.6	2.9	3.1
COMECON	0.8	1.0	19.5	39.4
Others	9.0	3.8	5.9	5.4
Total	100.0	100.0	100.0	100.0

Source: Ministry of Foreign Trade

Table 3: Composition of Foreign Loans, Credits and Donations

	1981-83		1984-86	
	million $	%	million $	%
Western Europe, Canada & EEC				
Credits & 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 & loans	254.9		-	
Donations	22.7		30.1	
Subtotal	268.6	13.7	30.1	1.7
Socialist				
Credits & loans	529.1		1003.6	
Donations	72.2		184.6	
Subtotal	601.3	30.7	1188.2	67.2
Others				
Credits & 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 & loans	1654.9		1314.9	
Donations	182.3		334.6	
NGO aid	120.0		120.0	
Total	1957.2	100.0	1768.9	100.0

Source: E. V. K. Fitgerald, *IDS Bulletin*, July 1988

Table 4: Basic Economic Indicators

	1980	1981	1982	1983	1984	1985	1986
GDP (millions 1980 córdobas)	20,798	21,914	21,735	22,738	22,382	21,468	21,376
Population (thousands)	2,771	2,860	2,956	3,058	3,163	3,272	3,384
Growth of GDP	4.5	5.4	-0.8	4.6	-1.6	-4.1	-0.4
Per capita growth of GDP	1.4	2.1	-4.0	1.2	-4.8	-7.3	-3.7
Exports (millions of $)	450	508	408	431	385	299	226
Imports (millions of $)	887	999	775	807	827	892	761
Trade balance	-437	-491	-368	-376	-442	-594	-535
Terms of Trade (1980 = 100)	100.0	79.4	69.7	68.2	73.5	65.4	68.4
Foreign Debt (millions of $)	1,571	2,164	2,578	3,788	4,436	5,117	5,773
Inflation (%)	35	24	25	31	35	220	778

Source: Secretariat of Planning

Table 5: War Damage and Defence Expenditure (million $)

	1981	1982	1983	1984	1985	1986	1987
Material destruction	4	11	59	28	18	14	37
Production losses	3	21	107	190	145	230	281
Total damage	8	32	165	217	164	244	218
Damage/exports (%)	1	7	35	50	49	90	71
Defence Expenditure	159	182	278	310	384	401	465
Expenditure/GDP (%)	7	8	12	14	18	19	21

Source: Economic Commission for Latin America, cited by E.V.K. Fitzgerald, *IDS Bulletin*, July 1988

Table 6: Structure of land ownership, 1978-1986

	1978		1983		1986	
	Area*	%	Area*	%	Area*	%
Individuals	8,073	100	5,232	65	4,918	61
500+ mzs	2,920	36	1,132	14	796	10
200-500 mzs	1,311	16	1,021	13	999	12
50-200 mzs	2,431	30	2,391	30	2,412	30
10-50 mzs	1,241	15	560	7	582	7
less than 10 mzs	170	2	127	2	129	2
Cooperatives	-	-	1,184	15	1,703	21
Credit & Service	-	-	804	10	804	10
Production	-	-	379	5	899	11
State Farms	-	-	1,657	21	1,080	13
Abandoned	-	-	-	-	372	6
Total	8073	100	8073	100	8073	100

Source: Ministry of Agriculture

* Thousands of manzanas (1 manzana = 0.7 hectare)

The Development Policy and Practice research group was set up in the Open University towards the end of 1984 to promote research on development issues. Its members have a wide range of disciplinary backgrounds (engineering, sociology, economics, education and geography). At present, research is focussed in three areas: food markets - particularly in sub-Saharan Africa and South Asia; the development of finance and banking; and links between small and large scale production.

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