THE STATE AND PLANNING IN NICARAGUA

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ABSTRACT

The state and planning are key elements in most theories of and concrete attempts at transition. Nicaragua is no exception. This paper begins by investigating some of the major changes in the role of the state in Nicaraguan political economy under the Sandinistas. The second section focuses on the early attempts at state planning in Nicaragua. The third section presents some of the contradictory effects of the Nicaraguan state conceived to be the "center of accumulation." A short concluding section analyzes the most recent planning efforts and presents the specific implications of this analysis of the state and planning for the Nicaraguan transition.

RESUMEN

El estado y la planificación son elementos claves en muchas teorías y otros tantos intentos concretos de transición. Nicaragua no es ninguna excepción. En este ensayo se empieza por investigar algunos cambios en el papel del estado en la economía política nicaragüense bajo los Sandinistas. La segunda sección enfoca los primeros intentos de planificación estatal en Nicaragua. En la tercera sección estudiamos algunos de los efectos contradictorios del estado nicaragüense concebido como el "centro de acumulación". Analizamos, en una breve conclusión, los esfuerzos de planificación más recientes y presentamos las consecuencias específicas de nuestro análisis del estado y la planificación para la transición en Nicaragua.
1 Introduction

Most theories of transitional or socialist societies make the state the primary feature of such societies. This focus on the state usually means that something called public or state ownership of the means of production and state economic planning are made the essential or defining characteristics of transitional economies. The fundamental theme of these approaches is summarized by the juxtaposition of markets and planning.\(^2\)

This emphasis on the essential role of the state is as true in the case of Nicaragua as elsewhere. For example, the transitional project of the FSLN (Sandinista National Liberation Front) is often summarized as the construction of a new state to guarantee the interests of the "majority." In addition, much of the literature on the Nicaraguan economy concentrates on changes in the relative quantitative weight of the state and private sectors since 1979. A constant question in this literature is whether or not the Nicaraguan "mixed economy" is inherently unstable and/or doomed to failure.\(^3\)

The role of the state and planning in Nicaragua since 1979 is also the focus of the present paper. However, the approach adopted here constitutes a departure from previous analyses by avoiding two major errors. First, the Nicaraguan transition is not reduced to the mere existence of enhanced state ownership of the means of production. The changes in property ownership since 1979 certainly mark a more or less sharp departure from the period of the Somoza regime; however, such changes are only some of the elements conditioning the existence of a transitional project in Nicaragua. Second, the sterile juxtaposition of the market and planning as alternative allocative mechanisms is rejected in favor of a perspective that emphasizes the existence of different kinds and theories of socialist planning and the contrasting social effects of different approaches to such planning.\(^4\)

In sum, it cannot be merely assumed that a shift towards state property ownership and the existence of economic planning are equivalent to a socialist transition. Such changes may participate in creating some of the necessary transitional conditions; they may, however, have the opposite effect of reproducing the pre-existing class structure and even undermining the transitional project. Therefore, the transfer of property ownership and the activity of state planning must be analyzed in terms of the contradictory effects they have on the emergence and strengthening of transitional elements in situations such as the Sandinista Revolution in Nicaragua since 1979.

The remainder of this paper examines some of the ways in which the state and planning have participated in shaping the
Nicaraguan transition during the period 1979-1985. The next section below analyzes some of the major changes in the role of the state in Nicaraguan political economy under the Sandinistas. The third section focuses on the early attempts at planning in revolutionary Nicaragua. The fourth section lays out some of the contradictory effects of the Nicaraguan state conceived to be the "center of accumulation." A short concluding section analyzes the most recent planning efforts and presents the specific implications of this alternative analysis of the state and planning in Nicaragua.

2 State and Economy in Nicaragua

It would appear that any far-reaching set of social reforms such as those called forth by the FSLN-led movement against the Somoza regime requires an extensive restructuring of the state. No simple change of president or ministers is sufficient in that context. This restructuring is necessary because, on the one hand, the state under Somoza was involved in important ways in providing some of the political, economic, and cultural conditions under which the prevailing social structure was reproduced over time. The National Guard was, of course, the most notorious institution. However, we would also have to include the effects of such diverse entities as the Supreme Court, the public education system, the Central Bank, and the Nicaraguan Coffee Institute. They and the other institutions that comprised the Somoza state had played an important role in creating and maintaining the Nicaraguan class structure through 1979. On the other hand, the Sandinista project of reconstruction and transition implied a different set of social conditions. It was necessary both to dismantle many of the social "processes" that made up the previous state and to create a different set of such processes within the Nicaraguan state.

In this sense, the state can be seen as one "site" within Nicaraguan society at which some historically specific set of social (including class) processes occurs and changes over time. Such an approach must be clearly distinguished from theories of the state as a class-neutral social wealth enhancer that exists as an expression of the will of its subjects. It must also be distinguished from so-called radical accounts of the state as a mere instrument to secure the political rule of one class over another (or, as sometimes in the case of analyses of Nicaragua, of one individual over the rest of society). The alternative approach used here views the state as a specific location in society at which a particular set of economic, political, and cultural processes are performed, which in turn define it as a social site. This subset of the totality of social processes that make up the wider society is, of course, constantly moved and shaped by the social processes that make up the other social sites (for example, enterprises, families, churches, etc.). At
the same time, the state's "relative autonomy" derives precisely from the specific set of component social processes that give the state its particular structure and movement.

The fact that the state cannot, at least on this view, be reduced to some essential set of underlying political or economic processes means that any particular state comprises a historically contingent set of economic, political, and cultural processes. The state may be the exclusive site of some social processes (for example, as source of legal tender or lawmaking); other social processes may be present in the state as well as in non-state social sites (as in public and private education and money-lending). In addition, social processes may shift from one social site to another over time. What this means is that any attempt to restructure the state will probably involve some combination of three different kinds of change: the maintenance and expansion of some processes previously performed in the state; the shifting of other social processes from non-state sites to the state; and the transfer of still other social processes from the state to sites outside the state. It also means that tensions and struggles may emerge among and between occupants of positions in the state and occupants of positions in other social sites over exactly what processes will be performed in and through the state. Both of these developments occur in the course of constructing the new Nicaraguan state beginning in 1979.

The downfall of Somoza led to the maintenance and improvement of programs in certain areas in which the state had been involved previously. For example, public expenditures on health and education, although not unknown under the Somoza regime, expanded considerably under the Sandinistas, especially in the early years. The social security system has also been greatly widened, both in terms of its coverage and sponsored programs. In a different vein, the National Guard was disbanded and a new army formed from the original Sandinista forces. Subsequent external aggression has forced the current Nicaraguan state to increase defense spending which has reached, in 1985, forty percent of total government expenditures (ECLA, 1985, p. 64).

One of the major themes underlying the early changes in the composition of the Nicaraguan state was, as is well known, its extension into areas previously restricted in large measure to private ownership. Among the first measures of the FSLN was the nationalization of most of the banking and insurance sector (excepting a few foreign banks) and of the commercialization of exports. State corporations were established to administer the financial system (CORFIN, the Nicaraguan Finance Corporation and INISER, the Nicaraguan Insurance and Reinsurance Institute), while the control of external trade became the responsibility of the Ministry of External Commerce (and some export-oriented enterprises). The government also greatly expanded its partici-
pation in the areas of construction and transportation. Therefore, within the first six months after taking power, the Sandinista state had extended its participation in the "service" sector far beyond the traditional public enterprises that functioned in that sector under Somoza.\(^6\)

Apart from these government services, a number of new entities were formed in the natural resource, agriculture, and industrial sectors. For example, all primary resource production (essentially forestry, gold and silver mining, and fishing) was brought into the state.\(^7\) In addition, the enterprises and other property directly owned by Somoza and by close associates of the Somoza regime who left the country after December 1977 became state property. Those holdings included some 168 factories (mainly plastics, timber, foodstuffs, building materials, paper, metal and machinery, and pharmaceuticals), making up 25 percent of the country's industrial plant, and two million acres of agricultural property which encompassed about half of the farms larger than 875 acres. These enterprises formed the basis of the Area of People's Property (APP). They were managed for the first five months by the National Reconstruction Trust Fund; they then came under the management of either the People's Industrial Corporation (COIP) or the Nicaraguan Agrarian Reform Institute (INRA).

In addition, the last six years have seen the state become involved in a wide range of other activities. The state has increased its participation in the storing, transport, and distribution of domestic products (through, for example, the Nicaraguan Enterprise for Basic Food Products, ENABThe). The emerging trade gap has led to strict state control over foreign exchange (with foreign exchange rationing and multiple exchange-rates) and import controls. Prices for six basic consumer items are controlled and some fifty other prices are "regulated." In the area of labor relations, the state has established (and enforced) new minimum wages and a scale for all other wages and salaries (through the Labor Ministry's National System of Ordering Work and Salaries, SNOTS), promoted labor unions and collective bargaining agreements and, under the temporary emergency laws, prohibited strikes.\(^10\)

Prior to 1979, then, the Nicaraguan state had only marginal direct participation in the production and distribution of commodities. The role of the so-called public sector was limited to a relatively low level of social services (especially health and education), utilities, internal security, specialized development banks, and the Central Bank. The total state sector (including central government and decentralized entities), in quantitative terms, directly controlled only about 15 percent of Nicaragua's GDP. The role of the state changed considerably after the Sandinista victory. By the end of 1980, the state accounted for 18 percent of total agricultural production, 30
percent of manufacturing, 44 percent of services, and 100 percent of such sectors as mining, banking, and insurance. In all, little more than one-third of the country's GDP in 1980 was generated within state entities. This level of participation of the state in the Nicaraguan economy has changed little since then (see Appendix Table 1).

This quantitative expansion of the scope of Nicaraguan state activities was accompanied by a qualitative transformation of the state. This new state has comprised a different set of political, cultural, and economic processes from those of the state under Somoza. In particular, as far as the economic sphere is concerned, the state has expanded its performance of processes that secure the conditions under which capitalists and others engage in production (from marketing and credit to lawmaking and education) and has come to occupy its own new position as capitalist commodity producer.

This quantitative and qualitative restructuring of the Nicaraguan state also involves a new set of potential tensions and struggles over the range of social processes performed in and by the state. To take a non-economic example, the cultural process of education involves not only who is taught but also what is taught. Education involves the training of potential workers as well as the dissemination of conceptions of life, work, politics and so forth. Therefore, given the changed content of the Nicaraguan educational system since 1979, it is not surprising that capitalists and other occupants of positions in sites outside the state have struggled with occupants of positions in the state over the effects of state-sponsored education. Similar tensions and struggles have emerged over a wide range of state initiatives, including property ownership, marketing, price-setting, law enforcement, and defense.

An additional issue concerning this transformation of the Nicaraguan state, one that is especially relevant for the question of transition, is the extent to which the effects of the various social processes that make up the new state may lead to changes in the Nicaraguan class structure. In particular, since changes in property ownership do not by themselves mean the elimination of capitalism, are the conditions being created whereby the state restricts and/or eliminates its own performance of processes that provide the conditions of existence of capitalism, and that of others?

3 Nicaragua Planning

Once the initial steps of restructuring the Nicaraguan state were taken, the stage was set for reactivating and transforming the Nicaraguan economy. The fact that the state had become a site where not only commodity production took place (in the APP) but also where such activities as the creation of money and
money-lending and the internal marketing and distribution of commodities produced inside and outside the state was carried on meant that no sector of the economy could ultimately escape its influence. The Nicaraguan economy was far from being a wholly state-run economy, but the various activities that made up the new state would have far-reaching effects throughout Nicaragua; and consciously or unconsciously, the intervention of the state must be governed or shaped by some broad view of ends to be pursued and of the effects of attempting to pursue those ends, in other words, by a general plan for the economy. State planning in Nicaragua was born out of this de facto situation.

To be clear, however, the existence of state planning does not mean that compulsory production and other targets are formulated in the planning ministry and carried out by lower-level state and non-state entities. Economic planning in Nicaragua has never corresponded to the textbook description of the "centrally planned economy." Rather, if by "planning" we mean the exercise of state authority to intervene in and partially regulate the economy, then a commitment to planning in official circles and concrete attempts at planning existed almost from the start.

The Ministry of Planning (MIPLAN) was one of the first ministries organized during the first six months of Sandinista power. The conditions facing the new regime and its planners have been well documented by Fitzgerald (1981), World Bank (1981), and ECLA (1979). The destruction and disruption caused by the insurrection, the inherited external debt, and the necessity to reorient the existing model of development all called for immediate measures bound together by a global plan of action. The first meetings in MIPLAN to discuss this situation took place during July and August 1979. Those meetings led to the first discussions concerning the "Sandinista model of development" and to studies of the various areas of the economy (the APP, the structure of agriculture and the possibility of an agrarian reform, etc.). The first general outlines of an economic program for 1980 were presented to the Junta of the Government of National Reconstruction (JGRN) and the National Directorate of the FSLN (DN-FSLN) and approved on October 22. After successive drafts of the more detailed program and after the naming of Henry Ruiz as minister of planning in the December reorganization of the government, the "Program of Economic Reactivation to Benefit the People" (MIPLAN, 1980) was finally approved in mid-January of 1980.

Plan 80, as it came to be known, received widespread diffusion throughout the country -- both in its full form and in more popular versions. The general aim of "Sandinista Economic Policy" as announced in the economic program was the "defense, consolidation, and advance of the revolutionary process" to overcome the combination of conjunctural difficulties (for
example, the financial crisis and the drop in agricultural production and structural problems (primarily dependency). The long-run objective was to "initiate the process of transition." The more specific objectives outlined in the program were four: (1) to reactivate production and distribution with the aim of satisfying the "basic needs" of the population; (2) to build and maintain a level of "national unity" among various key social groups (specifically, as the program saw them, "wage and salary workers," "small producers and artisans," "professionals and technicians," and "patriotic entrepreneurs"); (3) to construct a new Sandinista state (discussed in the preceding section); and (4) to establish and maintain macroeconomic and external sector equilibria.

The institutional context for carrying out the program would be a "mixed economy" (because of the continued existence of domestic and international markets) in which the state would be the "center" of reactivation and "transition to the new economy." Not withstanding this emphasis on the role of the state, the program does make reference to the importance of production in non-state enterprises. For example, of the total of almost 300,000 acres programmed to be planted, only 12.5 percent would be under the direct control of INRA. At the same time, private investment was expected to be minimal: Probable investment was expected to reach 2,700 million cordobas during 1980, with only 470 million of that total coming from capitalists and other producers in the private sphere.

The full-scale reactivation of the economy was designed to be carried out over two years: 1978 levels of economic activity would be reached by the end of 1980, while 1981 would see the achievement of levels of the previous "normal year," 1977. In practice what this would mean would be to use existing excess capacity to reach an overall economic growth rate of 23 percent. In particular, services were programmed to rise to levels about 37 percent higher than in 1978, but "material production" would still be 9 percent less than in that year.

The overall model of export-led growth was not to be fundamentally altered at this stage of development of the revolutionary process. The "differential rent" captured from the "comparative advantage" of Nicaraguan exports of agricultural goods would continue to serve as the basis of earning foreign exchange to purchase necessary imports. However, the overall balances of the program demonstrated that an "external gap" (consisting of the trade deficit, service payments, and an increase in international reserves) would remain and amount to some $370 million. This sum was exactly equal to the calculated need for external funds.

The final chapter of Plan 80 presented the planners' expectations of the "dynamic and tensions of reactivation."
Fundamentally, it was argued that increasing incomes (especially of the poorest sections of the population) and using existing excess capacity would run up against constraints imposed by supply inelasticities in agriculture, the shortage of foreign exchange, and the fact that changes in the composition of demand generated by a changed distribution of income would not find the corresponding supply, at least in the short term. In addition, it was acknowledged that private producers, given the wide range of political and other changes taking place, might not respond to the levels of production programmed for them.

Plan 80, then, was a document that attempted to lend coherence to the variety of state initiatives during the first full year of the Sandinista government. It was not, as argued above, a set of obligatory goals that were (or could have been) imposed on the various state and non-state entities involved in the economic reactivation. Rather, the program outlined in Plan 80 was the product of the joint effort of hundreds of state officials, in conjunction with some representatives of mass organizations and large private capitalists, with the aim of providing an overall framework for specific policies and for analyzing the expected effects of those policies.

The implementation of the program was, of course, delayed by its late publication. Additional disruptions were caused by difficulties inside the JGRN (Robelo finally resigned on April 12), the lack of any centralized direction and the fact that the nine proposed Coordinating Program Commissions (CPGs) never quite got off the ground. MIPLAN held its first public seminar on planning in Nicaragua in May of 1980, to take stock of this first Sandinista experience with planning and to begin the preparations for pulling together an economic program for 1981. Not surprisingly, at least from MIPLAN’s perspective, the lessons drawn from the 1980 seminar (and basically repeated in its 1981 counterpart) were that ministerial “feudalism” (read: MIPLAN was just one among 21 ministries and the others do as they please) and the lack of state discipline (read: Plan 80 was not binding) were at the root of the problems in carrying out the economic program for 1980 (MIPLAN, 1980b and 1981b).

Therefore, MIPLAN, although the official center for the elaboration of economic programs and other planning documents, has never enjoyed anything like complete monopoly over planning activities, short-term or annual. This is not unlike other experiences of socialist planning. MIPLAN initiated its activity of formulating plans for the year ahead in 1979, but economic policy was made throughout the year by the inter-ministerial “economic council.” Emergency economic programs, negotiations with individual enterprises, and the continual search for foreign markets and sources of external credits and loans tended to supersede the best laid plans of months prior. In addition, independent decisions by other ministries, espe-
cially one with the weight of Agricultural Development and Agrarian Reform (MIDINRA), would change the parameters according to which the original program was drawn up.

Finally, it must be kept in mind that economic planning has never obeyed the relatively simple conception of a one-to-one correspondence between the acts stipulated in the plan and the broad economic and social consequences they are so often said, at least in principle, to cause. Economic plans, whether obligatory or not, represent only one set of proposed interventions in the economy and wider society at any point in time. The complex effects of those planned initiatives are always modified and transformed by the effects of changes in other parts of the state and in other, non-state sites to produce the various paths of movement registered in the remainder of the economy and society. Moreover, the activity of state economic planning is, in turn, affected by those other changes.

To see this, consider the following example. The attempt to centralize the activity of economic planning in one ministry and to impose the results of that activity on other state entities may lead to tensions and struggles with those other entities over the nature and scope of that particular approach to state economic planning. At the same time, planned limits on wage increases may lead to a shortage of labor in the "formal" economy. Employers might respond by attempting to pay wages in the form of money or in kind above the official rates. On the one hand, the unplanned wage payments might upset the planned macro-economic balances; on the other hand, the low official wages might induce the movement of labor out of the formal sector into the "informal" economy. The latter set of activities are even less amenable to state economic planning. The result of these and other factors that change and modify planned initiatives may be that the activity of planning in the state is itself reorganized. State planning may even be dismantled altogether.

In the case of Nicaragua, the tensions and struggles over economic planning within the state do not appear to have been over whether or not there would be some form of economic planning; rather, they seem to have involved the issue of who would hold the power over economic planning within the state. Thus, the activity of state economic planning did not disappear. Instead, MIPLAN was replaced in early 1985 by a Secretariat of Planning and Budget (SPP). In formal organizational terms, the SPP is no longer a separate ministry charged with the responsibility of drafting annual plans and attempting to induce other ministries and state entities to make decisions consistent with the plans. The SPP is now considered to be a cabinet office -- a technical office without ministerial rank -- attached to the National Planning Board (CNP). The CNP, in turn, replaced the "economic council" and is made up of the heads of the relevant ministries organized into five basic economic areas: foreign
aid, agriculture and marketing, finance, industry, and infrastructure.

The evaluation of the carrying out of the first economic program brought to the fore the difficulties experienced and the wide-ranging nature of the changes that had taken place in the first year and a half under the new Sandinista government. Not surprisingly, fulfillment of the quantitative targets stipulated in Plan 80 was uneven. The overall rate of growth of GDP, although not of the magnitude projected in the program, did reach 10 percent. Exports behaved more poorly than expected (down 24.7 percent with respect to the 1979 level) and imports rose more rapidly than projected (some 75.8 percent over 1979), leading to a widening trade gap (24 percent of GDP) at the end of 1980. Agricultural production in 1980 was based on the area planted in 1979; thus, the disrupted 1979/1980 agricultural cycle meant that production levels fell by 11.6 percent in that year. However, the area planted in 1980 for the 1980/1981 cycle surpassed the programmed area. Industrial production reached 90 percent of the planned level, growing at a rate of 7.3 percent during 1980. In terms of traditional national income accounting, the results of 1980 demonstrated that economic reactivation had, in fact, taken place; however, it was also the case that this reactivation had generated widening internal and external "gaps": Domestic inflation reached 27 percent, while foreign debt and the trade deficit grew at alarming rates.

An overall assessment of 1980 by MIPLAN was presented in the economic program for 1981:

Even if the economic reactivation was very dynamic, it was also uneven. In effect, it was more notable in production for domestic consumption than in export production. Similarly, it was more substantial in the countryside than in the city, and more dynamic in the AEP and small-scale production than in the capitalist sector (MIPLAN, 1981a, p. 154).

The evaluation of the first year of the Nicaraguan "planned economy" also revealed that other changes and difficulties not captured in the national income accounts characterized the situation through the end of 1980. New forms of property and organization had emerged, especially in agricultural production: state farms (UPE) had been organized on INRA land, while production and credit and service cooperatives had been formed among direct producers in the countryside. These new "enterprises" existed side-by-side with traditional large-scale capitalist farms and agro-industrial complexes. It was also noted that the process of social differentiation had accelerated among independent, non-capitalist agricultural producers. Still in terms of the organization of production, "labor productivity" (defined and measured as the total value of production divided by total
employees) has dropped precipitously with the APP during the course of the year, but had remained virtually constant in private enterprises.

Income distribution had also been modified in important ways during the course of 1980. The creation of new jobs (112,300 new jobs were generated, lowering the official unemployment rate to 17.5 percent), the lowering of rents on agricultural lands, an increase in agricultural producer prices, the extension of credit, an increase in minimum wages (but a decline in average real wages), and state control and subsidies of basic consumer goods all contributed to changing the existing distribution of income. This same modification of key prices also had the effect of widening the town-country price "scissors" that had originally emerged in 1978: The prices of industrial goods continued to rise with respect to the producer prices of domestic foodstuffs through the end of 1980. However, the prices to the producers of agricultural exports rose in comparison to industrial prices. Therefore, although the overall price scissors widened during the course of 1980, the effects on relatively small-scale independent agricultural producers (located primarily in domestic food production) and larger-scale capitalist producers (with a high percentage of export production) were uneven.

The experience in drawing up and attempting to carry out Plan 80 laid the basis for the second Sandinista economic program, the "Economic Program of Austerity and Efficiency" (MIPLAN, 1981a). Formal preparations for this Plan 81 began during the month of June with the drafting of the qualitative aims and quantitative sectoral "control figures" for the year ahead. In conjunction with the DN-FSLN and the JGRN, the strategic objectives of the economic program were worked out during September. Joint work between MIPLAN and the sectoral ministries during October involved revising the original control figures and writing the first draft of the program as a whole. Work during November led to further revisions, the drafting of the state budget, and the presentation of the plan to the JGRN. Finally, in January, Plan 81 was formally published.

The general approach to drafting the economic plans established during 1980 for 1981 appears to have remained the standard approach through 1985. Control figures in the form of "material balances" for the major agro-export, domestic food, and industrial products are drawn up by MIPLAN and these are then revised in discussions with the various sectoral ministries. Targets for such goals as employment, investment, and necessary foreign exchange are determined. The impact of projected policy measures such as wage and salary scales and the government budget are estimated. Finally, "global balances" of aggregate supply and demand, external payments, and finance are calculated for the economy as a whole,
When applied to the drafting of Plan 81, the following target growth rates were established: 18.5 percent for GDP (compared to an actual rate of 10.7 percent in 1980); for "material production," 22.3 percent (compared to 3.8 percent in 1980); and, for services, 14.6 percent (18.5 percent in 1980). Thus, Plan 81 was seen as the culmination of the economic reactivation begun in 1979 and carried through 1980.

The four problems that received particular emphasis in the economic program for 1981 were the external sector, productivity, consumption, and "surpluses." As mentioned above, 1980 saw a widening trade gap generated by exports and imports that were, respectively, lower and higher than both programmed and historical levels. Part of this gap was determined by continuing declines in Nicaragua's external terms of trade (down 16 and 3.7 percent in 1979 and 1980, respectively). However, it was also the case that quantum export production levels remained relatively low and imports exceeded projected levels (based on the lack of import controls in the context of an overvalued córdoba exchange-rate, restricted domestic supply, and the unchanged high import-content of domestic production). It was estimated that labor productivity had dropped by more than 50 percent since 1979, especially in APP firms. In addition, all three areas of consumption had exceeded programmed levels during 1980: private "basic" consumption (up 23 percent over 1979), primarily due to the increase in employment and minimum wages; private "non-basic" consumption (up 34 percent), based on increases in both middle incomes and profits; and government consumption (up 30 percent), from government consumer subsidies, the expansion of state sector employment, and investments in economic and "social" (especially hospitals and schools) infrastructure.

These three sets of problems combined to create both internal and external disequilibria that would only be solved over the medium-term. They eventually became the focus of the JGRN's "Economic Policy Guidelines 1983-1988": Economic development over the next five years would be based on structural changes that will gradually eliminate internal and external imbalances and lay the foundation for sustained economic growth that make it possible to attain the basic objectives of the country's development policy: satisfaction of the basic needs of the entire population and growing self-sufficiency (JGRN, 1983, p.1).

The fourth major problem to which attention was directed in Plan 81 was that of the economic "surplus." Although nowhere specifically defined, MIPLAN's notion of the surplus appears to refer to the portion of GDP available for government expenditures and (state and non-state) investment. In the non-state sphere, MIPLAN observed that investment had not risen pari passu with
enterprise profits.

Although objectively profits have recovered much faster than wages and salaries, the cooperation of private entrepreneurs has been limited to raising production; their attitude with respect to investment has been ambiguous (MIPLAN, 1981a, p. 121).

In addition, according to MIPLAN, the surplus had decreased in certain sectors (especially in the APP), had been lost through capital flight, and had been absorbed by government expenditures other than investment. This meant that the only remaining source of surplus or investment funds were "external savings" in the form of foreign donations, credits, and loans. The resulting external debt had risen from $1.1 billion at the end of 1979 to $1.6 billion in 1980. Debt service was expected to absorb some 28 percent of projected 1981 export earnings. According to the Economic Commission for Latin America (1985), the debt service ratio actually reached 31 percent and the outstanding external debt rose to $2.1 billion.

The virtual absence of private investment and the recourse to higher levels of external debt to finance state investment continued to force the issue of the role of the state in the new Sandinista economy.

4 "The State as the Center of Accumulation"

The original conception of the role of the new state in Sandinista political economy was based, in general, on planning and, in particular, on control of the economic surplus. The state was to become the "center of accumulation" by centralizing the so-called surplus within the Nicaraguan economy and planning the use of that surplus in accumulation. The state was conceived to have direct access to the surplus generated in the APP and to have indirect access to the surplus produced in non-state (capitalist and non-capitalist) enterprises. Thus, this particular form of "primary socialist accumulation" was not to be based on the wholesale confiscation of previously private property. Rather, the nationalization of property would be limited to the holdings of the Somoza regime (the Somoza family and its closest allies) and any property that over time was abandoned or otherwise unproductively utilized.

For the state to serve as this center of accumulation, it needed to mobilize sufficient finance. What this meant concretely was that, on the one hand, state enterprises had to achieve high levels of profitability; on the other hand, the state had to realize a surplus on its current account and to use other mechanisms such as its control over credit and marketing to "siphon off" surplus realized in non-state enterprises. Once the surplus was effectively captured, its planned use could serve as
the basis for the reactivation and restructuring of the economy on the basis of state investment.

Obviously this accumulation strategy is not without its own inherent difficulties. It may be stalled and/or undermined by so-called exogenous factors such as declines in the external terms of trade, foreign aggression, and natural disasters. In addition, attempts to increase the size of the surplus in both state and non-state enterprises and to gain effective state control of that surplus may themselves create problems. They may involve the state in a wide range of political and economic (including class) tensions and struggles. For example, attempts to lower real wages (to increase the amount of surplus extracted) and/or to increase taxes on capitalist enterprises (to direct the surplus into fiscal revenues) may generate conflicts that imperil the central role of the state in accumulation. Such conflicts may also have the effect of undermining the transitional project itself.

In the concrete case of Nicaragua, the attempt to construct a state that serves as the center of accumulation has been subject to such tensions and difficulties. The short-term strategy to overcome these problems has been an important source of the increased levels of internal and external debt in the last six years. The success of the Sandinista transitional project depends crucially on finding additional means of resolving the political and economic contradictions inherent in making the state the center of accumulation.

One way to get at these potential problems and difficulties is to consider the finances of the Nicaraguan state. In general, any state can be expected to have a heterogeneous source of revenues and pattern of expenditures. The revenue (R) of a typical state in a transitional society may be expected to include some combination of current income from the profits of state enterprises (SV), from taxes on the profits of and the exchange of services with non-state enterprises (SCR), and from taxes on the incomes of all other individuals and state debt (NCR). At the same time, the state is engaged in making expenditures (E) that secure those sources of revenues: payments such as managers' salaries and interest payments that secure SV (ESC); a legal system, infrastructure, and certain types of education that secure SCR (SX); and consumer subsidies, hospitals, and the like to secure NCR (SY). Equating R and E, the revenues and expenditures of the state in a transitional society may be expected to include the following:

\[ SV + SCR + NCR = ESC + SX + SY \]

One of the objectives of the Sandinista state may be considered from this perspective as an attempt to open up some political "space" for the new state initiatives or to create a
certain "relative autonomy" for the state by lessening its dependence on the tax portion of private sector profits (SCR) to carry out its projects. One of the dangers of attempting to tax private capitalists and, instead of making ESC expenditures, to divert them to accumulation within the state sector would be to lose the original source of SCR revenue. For example, private capitalists might compensate for losing the state-provided expenditures by diverting another portion of their gross profits from accumulation to secure those conditions. They might also decide to create new positions for themselves, possibly by depositing those funds in financial institutions and purchasing assets in other countries. In both cases, private domestic capital accumulation, and hence future sources of SCR might suffer as a result. This has been one of the dilemmas of the Nicaraguan "mixed economy."

In principle, the surplus of the APP and the revenues from activities such as state credit and marketing would provide sufficient additional resources to carry out proposed state projects. However, such a strategy also entails political and economic difficulties. On the one hand, increased state enterprise profits generated from, for example, decreases in real wages might generate struggles between state sector enterprise managers and workers. On the other hand, "expensive" state credit and wide price differentials for state-marketed commodities would threaten the participation of non-state enterprises and poor citizens in the economic reactivation. Hence, additional sources of state revenues through such mechanisms has been limited.

Over the last six years, both current government revenues and expenditures have risen dramatically in Nicaragua (see Appendix Table 2). The current revenue/GDP ratio has grown from approximately 12 percent during the 1970s to a little more than 37 percent in 1984. Similarly, the current expenditure/GDP ratio has increased from 8.7 to 37.7 percent during the same period. Neither APP profits nor state "savings" have turned out to be an adequate source of funds for state accumulation.

However, state accumulation (measured here as officially classified "capital expenditures" minus amortization payments) has expanded from 6.2 percent of GDP during the 1970s to 20.4 and 15.6 percent in 1983 and 1984, respectively. With state "savings" being negative, and debt service payments averaging 4.8 percent of GDP during the period 1980-1984, the only short-run alternative was in the form of internal and external borrowing. Thus, the Nicaraguan fiscal deficit to be financed rose from 9 percent of GDP in 1980 to 21.2 percent in 1984. The mix of internal and external debt has also changed during that period. Although external loans available to Nicaragua for government deficit financing more than doubled between 1980 and 1984, their participation in financing the deficit fell from 48 to 26
percent. The increased importance of internal borrowing, mostly from the Central Bank, has become, in turn, an important factor in creating a highly monetized and inflationary economy.

This "fiscal crisis" means that one of the conditions whereby the Nicaraguan state has become the center of accumulation has been on the basis of NCR in the form of internal and external debt. The external debt situation is, of course, critical. Recent "austerity" programs in Latin America provide graphic examples of the tensions created by attempts to service the outstanding debt. At the same time, recourse to this particular set of NCR, instead of other NCR (such as further increasing taxes on income and services), SV (for example, from state employees), or SCR (by "squeezing" capitalists or agricultural cooperatives), has been an important factor in building and maintaining the complex alliances upon which the Sandinista project rests and with which the current foreign aggression may be successfully fought.

5 Conclusions

The economic program for 1985 (MIPLAN, 1984b) included a specific set of "austerity" measures designed, in part, to deal with the problems and difficulties generated by the state in its multiple roles in the Nicaraguan economy. For example, state subsidies for consumer products would be gradually eliminated; state investments were to be sharply curtailed; central government employment would be frozen; and new taxes would be applied. The measures publicly announced and put into place on February 8, 1985 also included a devaluation of the cordoba, wage increases, and improved distribution of consumer products for "formal" sector employees.

It is, of course, too early to formulate a final analysis of the consequences of these new policies; their effects would continue to develop over the course of 1985, into 1986. However, the SPP's (1985a) analysis of the results of the first trimester led to a revision of the initial estimates for 1985 contained in the economic program. Overall economic growth, instead of rising at a rate of 2 percent, was projected to fall 1.3 percent. Industrial production was down 5.3 percent compared with the first trimester of 1984 (and down 8.8 percent with respect to the programmed level). While in agriculture, the actual area planted was only 81.8 percent of the total initially programmed. Inflation of official consumer prices during the first six months of 1985 was calculated at 281.3 percent, while the official average monthly salary increased only 148.2 percent. Both the fiscal deficit and the deficit on current external account are expected to reach levels at least as high as those in 1984.

The initial control figures for 1986 (SPP, 1985b) are based on an extension of the stabilization policies enacted during
1985. The importance of the continuing external "gap" is represented by the fact that all of the targets for production, trade, government finance, etc. are calculated in three variants, depending on the availability of foreign exchange. Thus, for example, estimates for overall economic growth vary between 4.5 and -0.1 percent. Similarly, total investment is projected to fall by an amount between 10.5 and 18.7 percent over projected levels for 1985. Of course, all of the estimates contained in these control figures are highly dependent on the results of the remainder of 1985, any new stabilization measures enacted, the response of non-state producers, and the outcome of the current war. The overall impression is that Nicaraguan economic planning, while never particularly long-term and never allowed to escape the influence of external aggression, has been increasingly oriented towards short-term policymaking and putting the economy on a war-time footing.

One of the effects of this "war Sandinismo" is that the role of the state and planning in the Nicaraguan transition has to be reconsidered. If, as some have argued, the tendency is for the Nicaraguan "mixed economy" to become increasingly state-run, this does not mean that the state has decreased its involvement in securing the economic, political, and cultural conditions under which capitalism is reproduced in Nicaragua. On the contrary, capitalist production both inside and outside the state may be strengthened, at least in the short-term, by the expanded role of the state and planning under the Sandinistas.

However, this short-term movement has been accompanied by other changes (in areas as diverse as cooperative production, foreign policy, the status of women and ethnic minorities, popular education, and forms of mass organization) which may lead to a future situation in which the state can restrict and eventually eliminate its role in providing those conditions of existence of capitalism. In this sense, the contradictory roles of the state and planning in the Nicaraguan transition should not undermine the fact that major, epoch-making changes have occurred in that country since 1979.
Endnotes

1. I would like to express my appreciation for the assistance and support of Valpy Fitzgerald, Xabier Gorostiaga, and many other individuals too numerous to list. The research for this chapter would not have been possible without their guidance and cooperation. I am, of course, responsible for the analysis and conclusions presented here.

The research for this paper was supported in part by grants from the Helen Kellogg Institute for International Studies, the Institute for Scholarship in the Liberal Arts, and the Jesse Jones Faculty Research Travel Fund of the University of Notre Dame.

All translations are by the author.

2. This is as true in orthodox neoclassical theories of the "centrally planned" or "administered" economy as in radical theories of "socialism" or the "transition to socialism." See, e.g., the various approaches surveyed by Ellman (1979).


4. This alternative theoretical approach to planning in transitional economies is elaborated in Ruccio (forthcoming-a and forthcoming-b).

5. For a critical review of alternative theories of the state and a fuller elaboration of the approach underlying the present analysis, see Resnick and Wolff (1983).

The conception of the Somoza state as the dictatorship of one individual over the rest of society is offered by, among others, Wheelock (1979) and Black (1981).

6. These and other "social services" have not only been performed by the state. Non-state, so-called mass organizations have been an important site where some of these activities have been carried out -- the most well known being the 1980 literacy campaign.

7. See, e.g., the essays on education, health, and social welfare in Walker (1985).

8. Including the National Lottery, Telecommunications and Post Office, Nicaraguan Energy Institute, Nicaraguan Water and Sewerage Institute, and National Electrical Energy Institute.

9. The nationalization of primary resource production was one of the few instances in which property owned by foreigners was directly affected by the state.

The relevant state corporations are the Natural Resources and Environment Institute (IRENA), the People's Forestry Corporation (CORFORP), the Nicaraguan Mines and Hydrocarbons Institute (INMINENH), and the Nicaraguan Institute for Fisheries (INPESCA).
10. During the period August 1979-August 1980, 200 collective bargaining agreements were signed, covering 50,000 employees. During the 46 years of the Somoza regime, only 46 such agreements were signed. For a fuller discussion, see Vilas (1984).

11. Nor is it clear that any other so-called socialist economy involves economic planning that conforms to the textbook model. Ellman (1983) notes the increasing acknowledgment of the diversity of planning systems and the burying of the myth of the single "Soviet-type economy."


13. In the case of Nicaragua, MIDINRA minister Jaime Wheelock expressed his doubts about the feasibility of MIPLAN's approach to economic planning in the following way: The "introduction of a system of overall planning did not work because society, which has strong mercantile tendencies, does not lend itself easily to planning" (Wheelock, 1983, p. 115).

14. For a fuller discussion of these and other changes in the agricultural sector, see Deere, Marchetti, and Reinhardt (1985).

15. This conception was implicit in the various published (MIPLAN 1980a and 1981a) and unpublished (MIPLAN 1982, 1984a and 1984b) economic plans, explicit in other MIPLAN documents, and theorized by Fitzgerald (1982, 1985a, and forthcoming) and Irvin (1983).

16. This was the logic that ruled the early nationalization decrees (nos. 3 and 38) and the agrarian reform law of July 1981.

17. The fall in the terms of trade has been noted above. The impact of foreign aggression has been analyzed by Fitzgerald (forthcoming, in Spalding) and ECLA (1985). The impact of the May 1982 floods is discussed in ECLA (1982).

18. In Marxian terminology, SV consists of surplus value directly extracted from state workers, SCR is the transfer of surplus labor extracted in non-state enterprises, and NCR includes neither the extraction nor the distribution of surplus labor. For a fuller explanation of these categories, see Resnick and Wolff (1982).

19. Although no exact current data exist, private investment appears to have been minimal throughout the period since 1979. According to the IADB (1983) data, private investment averaged little more than 1.7 percent of GDP during the years 1980-1982.
20. An alternative, more long-range policy that has been pursued with the aim of increasing the amount of surplus available has been to attempt to increase the productivity of state employees (within the APP) and producers of basic foodstuffs.

21. Such subsidies had hovered around 10 percent of total current government expenditures in preceding years.

22. The austerity measures were published in Barricada (February 9, 1985) and are discussed by Fitzgerald (1985b).

## APPENDIX

**Table 1**

STATE PARTICIPATION IN DOMESTIC PRODUCTION, 1980-1984  
(percentage of total)

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**NOTES:**  
APP = Area of People’s Property  
AF = private sector  
Preliminary data for 1984

**SOURCE:** unpublished data from the Nicaraguan Centro de Investigaciones y Estudios de la Reforma Agraria (1985)
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<td>13.1</td>
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<td>4.0</td>
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<td>6.5</td>
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<td>-28.9</td>
<td>-21.2</td>
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</table>

Financing (as percentage of total financed)

| Internal | 22.6 | 85.8 | 52.1 | 66.4 | 80.5 | 83.2 | 74.1 |
| External | 77.4 | 14.2 | 47.9 | 33.6 | 19.5 | 16.8 | 25.9 |

*Yearly average  
*Preliminary  
*Excluding interest payments, internal and external  
*Excluding amortization payments, internal and external  
*Interest + amortization payments, internal and external

REFERENCES


