



FALSE POLARIZATION?
ALTERNATIVE PERSPECTIVES ON THE ECONOMIC
STRATEGIES OF POST-REVOLUTIONARY NICARAGUA

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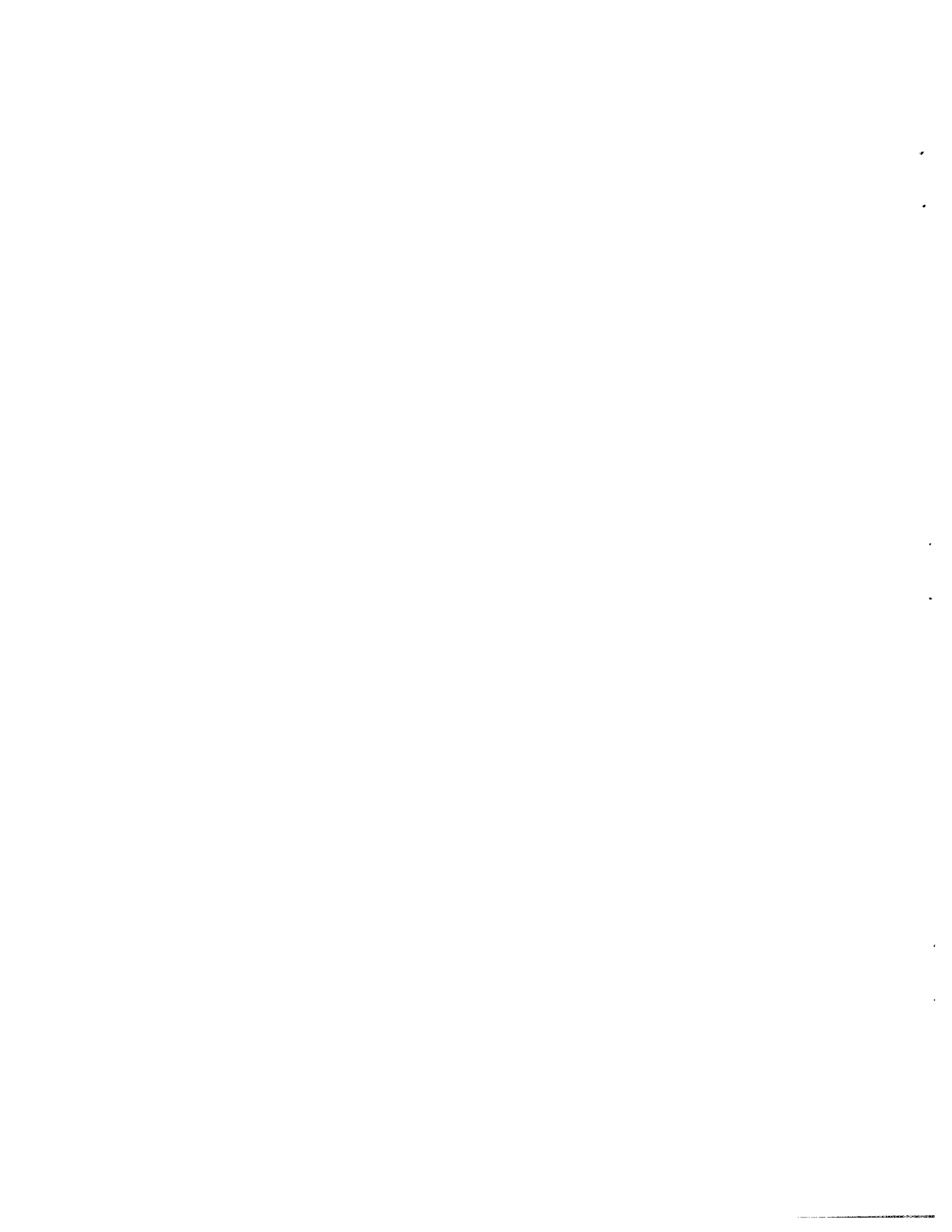


ABSTRACT

Nicaraguan economic strategies during the first five years after the revolution have been given profoundly differing interpretations in the U.S. How is it that the economy that had the fastest rate of growth in Latin America during 1983 could be characterized by the Kissinger Commission, in January 1984, as one "whose performance has been poor"? The Sandinista economic policies have given important continuing roles to the private sector, but they are dismissed as "Marxist-Leninist." In this paper I present an overview of Nicaraguan economic performance during the first five years after the revolution, and I explore the ideological roots of the widely differing evaluations of that experience. Pre-revolutionary Nicaraguan economic history and post-revolutionary policies are explored from the perspective of three distinct paradigms, the neo-classical approach, the structuralist approach of ECLA, and a more radical composite Marxist-dependency approach. Nicaraguan economic policies are seen to be logical, coherent, and complete extensions of a "structuralist" approach long practiced in lesser fashion in many other parts of Latin America. It is seen as neither the caricatured Marxist approach alleged by the Reagan administration nor the laissez faire capitalist model advocated by that administration. The economic war launched against Nicaragua is found to endanger most the very private sector on behalf of whom it is ostensibly being waged.

RESUMEN

Las estrategias económicas nicaraguenses durante los primeros cinco años después de la revolución han sido interpretadas en diversas formas en los E.U. Como puede ser que la economía que tuvo la tasa de crecimiento más rápida en América Latina durante 1983 sea caracterizada por la Comisión Kissinger, en enero de 1984, como una "cuyos resultados han sido pobre"? Las políticas económicas Sandinistas han reservado funciones importantes al sector privado, pero son descartadas como "marxistas/leninistas." Este trabajo describe en breve la economía nicaraguense durante los primeros cinco años después de la revolución y explora las raíces ideológicas de las extensivas y diferentes evaluaciones de esa experiencia. Se explora la historia de la economía nicaraguense antes de la revolución y las políticas de esta después de la revolución desde una perspectiva de tres paradigmas distintos: el método neoclásico, el método estructuralista de la ECLA, y un método más radical que combina elementos del Marxismo y del enfoque dependencista. Las políticas económicas nicaraguenses son lógicas y coherentes, extensiones completas de un método "estructuralista" practicada por muchos años en menor grado en muchas otras partes de América Latina. Estas políticas no son ni el rígido método marxista alegado por la administración de Reagan ni el modelo capitalista laissez faire defendido por esa administración. La guerra económica lanzada contra Nicaragua pone más en peligro exactamente al sector privado por cuyo beneficio es emprendida.



False Polarization? Alternative Perspectives
on the Economic Strategies of Post-Revolutionary Nicaragua (*)

by Michael E. Conroy

"For Nicaraguans... who expected the 1979 ouster of the tyrannical Somoza regime to bring better times..., the first two years of life under the victorious Sandinista guerrillas has been a bitter disappointment."

-- The Wall Street Journal, September 15, 1981.

"...Despite significant U.S. aid from 1979 to 1981..., <Nicaragua's> economic performance has been poor, in part because of the disruptions caused by the revolution, in part because of the world recession, and in part because of the mismanagement invariably associated with regimes espousing Marxist-Leninist ideology."

-- The Kissinger Commission Report,
January 10, 1984; p. 30.

"Recently updated data on the Nicaraguan economy in 1983 confirm that Nicaragua obtained the highest rate of economic growth in all of Latin America, despite the commercial blockade, the financial pressures, and the Reagan administration's policy of military aggression."

-- Barricada, January 23, 1984; p. 1.

Icarus or Phoenix?

Many Nicaraguans believe that they are building a new social order that will rise, as a beautiful phoenix, from the embittered ashes of the old. But there are many who fear that they have created, in their new social and economic strategies, the metaphorical wings of Icarus that will not allow them to escape the labyrinth of underdevelopment precisely because they live too close to the sun.

Has Nicaragua's economic performance been such that it could only be called a bitter disappointment? What has been the recent economic performance of Nicaragua, and how significant were the non-ideological factors cited by the Kissinger Commission in producing the historical record Nicaragua now offers? And to what extent should the economic policies of the first five years, whatever their results, be called "Marxist-Leninist"?

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Or has Nicaragua, like Icarus of the Greek myth, simply attempted to fly too close to the Sun, pursuing unwise, vainglorious, or threatening policies in its attempt to escape from the heritage of the Somoza dictatorship? Is that how one must understand the apparent attempts to create a financial and economic boycott of Nicaragua, the "economic war" now widely discussed? Is that why the World Bank and the Inter-American Development Bank appear determined to limit Nicaragua's access to the normal channels of multi-lateral assistance? Is there a conceptual framework that will explain both the difficulties encountered to date, the relative successes also produced, the animosity of its enemies, and the underlying structure of current economic strategies... other than a ritualistic invocation of ideological creed.

This is an essay in interpretation and evaluation. As with any other evaluative effort, the conclusion will depend heavily upon two primordial dimensions: first, the theoretical and ideological approach of the evaluator and, second, the context within which the evaluation is conducted, that is, the comparisons that are considered relevant. The two dimensions are not independent, for the choice of context is often a function of the theoretical or ideological approach.

In this essay I attempt to interweave both dimensions, noting the differing alternative theoretical perspectives that tend to be brought to the analysis of Nicaragua, and observing what has occurred with the distinct vision of each. The conclusions that I reach in responding to these questions is that there does, indeed, exist a "false polarization" of the Nicaraguan experience, designed to de-legitimize it in the eyes of those who have limited access to information. It consists of an apparently deliberate distortion of Nicaraguan policies that serves neither the interests of the advocates of the most conservative orthodox traditions nor the potential future of the Nicaraguan economy. It encourages economic aggression in the name of protecting the role and position of the private sector in Nicaragua while simultaneously undermining the very role that the Nicaraguans wish to see the private sector play. Ironically, the unjustified characterizations and harsh responses to Nicaraguan policies provide further legitimation of a Marxist interpretation of the international

political and economic system.

Both the support that Nicaragua receives from most of Latin America and the opposition to U.S. policies that is voiced throughout the region may also be understood, in part, as a result of the recognition in the region that the Nicaraguan model offers a potentially-viable, new, "Third Road" to development thoroughly consistent with the prevailing non-Marxist "structuralist" approaches favored by most of the governments in the region. The legitimization of radical perspectives on possibilities for Latin American development undermines seriously the political strength and policy-bases of the strongest non-Marxist allies of the U.S. in Latin America. Little wonder that the public and diplomatic opposition to U.S. policies is so widespread among erstwhile allies of the U.S. in Latin America.

A Note of Background.

There may never have been a broader range of economic development ideology characterizing, moving, and affecting Latin American underdevelopment than in the last 15 years. The period has seen both new attempts at radical social reforms, such as the democratic socialism of Salvador Allende and Michael Manley, and a resurgence of the most conservative laissez faire capitalist strategies since the Great Depression, as seen in Chile since 1973. There have been periods of "miraculous" sustained economic growth in Brazil and Mexico, using novel mixtures of free-enterprise concepts to justify, effectively, massive expansions of "state capitalism" that openly and proudly channel the resources of the State toward sustaining the profitability of the private sector. And each of those "miracles" has lost its gilt, crashing into their deepest crises in modern times <See ECLA, 1983>.

It has been a period replete with ironies. On the one hand U.S. President Ronald Reagan announced in Cancun in October of 1981 that thereafter all U.S. economic assistance would be directed solely toward those countries that openly pursue "free enterprise" development strategies. He thus confirmed precisely the charge often levied in the past against U.S. aid packages but always previously denied in a flurry of altruistic claims.

At the same moment, the country most vigorously adhering to those policies, Chile, was not only barred from receiving much U.S. aid but it faced the indignity of being the only Latin American nation openly moving from a semi-industrial economy back to a new species of raw-material based, foreign-dominated "banana republic." By burying its previous industrial base under a cascade of unimpeded "free market" imports and by expanding foreign investment most rapidly in enclave natural resource projects, the Chilean economy retrogressed by virtually any conceptual or contextual measure.

Fidel Castro, meanwhile, has faced unprecedented difficulties in the fulfillment of long-run commitments for supplies made by fellow-members of the socialist bloc. He has begun to seek new private foreign direct investment for Cuba. And he offers, on paper at least, the best profit repatriation opportunities in the hemisphere. The Cuban economy, portrayed repeatedly in the Western press as a "failure," has now celebrated 25 years of consolidated existence.

The very labels to which ideologues cling are becoming tainted by the complexity of the period. If, for example, the measure of "socialist" tendencies is the proportion of total production or total assets under public sector control, openly-capitalist Mexico is the "second-most-Socialist" Latin American nation, topped only by Cuba, following its nationalization of the banking system and all the banks' holdings in manufacturing firms.

Consistency in economic policy is becoming less and less attainable. The U.S. criticized the nationalization of the banking system in Mexico at the same time that it was encouraging nationalization of banking in El Salvador to stem the outflow of financial capital. It criticizes state control over all exports of Nicaragua at the same time that internal audits by U.S. government agencies find widespread misuse of foreign exchange assistance provided to El Salvador due to fraudulent invoicing by private importers and exporters. The U.S. has demanded of El Salvador in 1983 the expropriation of both idle and productive farmland and its transference to landless peasants, precisely one of the policies for which it overthrew a Guatemalan government in 1954.

Within this context it is especially unfortunate that U.S. policy-makers, both those that support the administration and many of those opposed, appear to have accepted the polarization of perspectives on Nicaraguan economic strategy that place the first five years of Nicaraguan economic policy in a caricatured "Marxist-Leninist," "totalitarian," "Cuban-advised," "Soviet-based" perspective. There is, as we shall note below, a very real basis from some theoretical perspectives for viewing Nicaraguan problems as a product, in part, of policies that will be seen by some as "totalitarian." There is also no question that Nicaragua has chosen to move away from the laissez faire orientation that Mr. Reagan and his principal economic advisers would prefer. But future economic historians are likely to find that Nicaraguan "Marxism," if it is Marxism, is a very curious Marxism, indeed. This is true whether viewed within the context of the varieties of Marxism discussed at length (and occasionally attempted) in Latin America or whether compared with the doctrines and practices of European and Soviet Marxism.

The global and regional economic crises of the past 15 years, from the creation of the OPEC oil monopoly to the more recent devastation of Latin American financial balances as a result of the unprecedentedly high interest rates engendered by U.S. monetary policy, together with the deterioration of export prices for principal Latin American exports, has affected every country in the hemisphere <cf. Conroy, 1983>. The United Nation's Economic Commission for Latin America has reported that the 1981-83 crisis is "the most serious one experienced since the Great Depression" <ECLA, 1983; p.1>. Regional gross domestic product fell by 1% in 1982 and by 3% in 1983; per capita product fell in 17 of the 19 countries for which data were available, and the region-wide average decline was 5.6%. By the end of 1983, the per capita product of Latin America, according to ECLA's early estimates, fell to nearly 10% below the 1980 level, returning the region as a whole to the level it had reached in 1977.

In this essay, by exploring the extent to which Nicaragua's economic problems can be explained by laissez faire dicta, by the expectations of straightforward Marxist doctrines, or by a more indigenous Latin American

approach firmly associated with the "structuralists" of ECLA and the Cambridge School, we shall attempt to see why Nicaragua is criticized by both the right and the left, internally as well as internationally. The economic policies of post-revolutionary Nicaragua, when viewed in a Latin American policy context, appear quite a bit closer to the "structuralist" views of many non-Marxist theoreticians than to the caricatures of either polarized alternative. And they also show historically important innovations in the application of many of the non-Marxist "structuralist" reforms that have been advocated by not only the United Nations Economic Commission for Latin America but also by the U.S. government in a variety of its aid programs in Latin America since the onset of the Alliance for Progress. The fact that Nicaraguan economic policies do not correspond to previous Marxist-Leninist models should not be taken to mean that Marxist analysis has been rejected by the Sandinistas. Rather, the evolution of policy in Nicaragua has been fundamentally pragmatic, borrowing from differing theoretical approaches in the struggle to create a viable set of policies appropriate to Nicaragua's needs. The mixed economy that has resulted offers a basis for both efficient and equitable development in a more independent mode, using both markets and planning.

Current Economic Problems of Nicaragua.

If we view Nicaragua superficially and in isolation, it would appear to most observers that the Nicaraguan economy has performed very poorly over the past five years. Table 1 presents some indicators of the global economic picture through the end of 1983. According to April 1984 ECLA statistics, Nicaragua generated aggregate economic growth in 1983 of 5.3% <ECLA, 1984>. When compared with preliminary Latin America-wide data released in late 1984, Nicaragua enjoyed the highest rate of economic growth in the entire region. From 1979 to 1983 the Nicaraguan economy generated cumulative growth of 22.5%, a dramatic increase, especially in view of the precipitous decline in the economy during the 1978-79 years of insurrection and civil war. Real growth per capita was 7.7% over that time, less than 2% per year.

There are serious problems in the Nicaraguan economy, some of which are evident in Table 1. The widespread insurrection that brought an end to

Table 1.

Nicaragua: Evolution of Principal Global Economic Indicators

	1976	1977	1978	1979	1980	1981	1982	1983	1979-83
Real GDP (Mil. of 1970 \$)	1168	1241	1152	863	944	1024	1004	1057	
% Change	5.1	6.3	-7.2	-25.9	10.7	8.7	-1.4	5.3	22.5
Real GDP/Capita (1970 \$)	487	501	450	326	341	359	342	351	
% Change	1.6	2.8	-10.2	-27.5	6.7	5.3	-4.6	2.6	7.7
Consumer Price Changes (%)	6.2	10.2	4.3	70.3	24.8	23.2	22.2	30.9	101.1
<hr/>									
Total Exports of Goods:									
Millions of Current \$	542	637	646	567	449	500	408	411	
% Change	44.5	17.5	1.5	-12.2	-20.8	10.9	-14.2	0.7	-24.1
Total Imports of Goods:									
Millions of Current \$	485	704	553	326	794	922	681	658	
% Change	.6	45.2	-21.4	-41.1	143.6	11.7	-26.1	-3.4	101.8
Trade Balance on Goods	57	-67	93	241	-345	-422	-273	-247	
<hr/>									
Net Movement of Capital	95	128	-70	-90	275	677	270	510	
Foreign Public Debt	653	867	964	1101	1290	2163	2789	3400	
% Change	9.7	32.8	11.2	14.2	17.2	67.8	28.9	21.9	208.8
Ratio of Interest Pmts. to Exports of Gds. & Serv.	6.5	7.1	9.3	9.7	15.7	15.5	31.7	36.1	

Sources: U.N. Economic Commission for Latin America, "Preliminary Overview of the Latin American Economy During 1983," E/CEPAL/G.1279, dated 29 December 1983; Economic Survey of Latin America, Various Issues, and ECLA, Centroamerica: Evolucion de Sus Economias en 1983 (Version Preliminar)," April 1984.

the Somoza dictatorship had dramatic consequences for the Nicaraguan economy in 1978, 1979, and 1980. Total output, exports, imports, and capital movements were all seriously affected; and the destruction, discussed below in greater detail, was far greater than that which is reflected in the table. Nicaragua generated extraordinary increases in production during the first two years of recovery from the civil war, but output fell sharply again in 1982. The trend in growth rates has been downward since 1980. The level of GDP per capita fell in 1982 by 4.6%, illustrating the fragility of current economic progress. Consumer prices increased by more than 20% per year for each year from 1980 to 1983, reaching a total, four-year increase of more than 101%. And Nicaragua has historically been a country with low rates of inflation!

The nation's external imbalance is clear and is not improving. Imports have exceeded exports by an average of nearly \$300 million in each of the last three years, a very large trade imbalance for a nation that only exported an average of \$450 million per year in those same years. These trade deficits have been covered by net capital inflows that peaked in 1981 at \$677 million, fell to \$270 million in 1982, and rose again to more than \$500 million in 1983. The consequences of those capital flows have been an increase in the external debt from \$1.6 billion in 1979 to \$3.4 billion in 1983 and an increase in the cost of servicing the debt (interest payments alone) from 16% of export earnings to 36%.

By all internal reports and anecdotes, the country is suffering an acute shortage of foreign exchange that has required careful exchange rationing and that has caused a sharp reduction in the availability of most imported products. The government is now rationing as many as ten basic commodities, including sugar, cooking oil, and gasoline. There have been reports of shortages of medicines in the hospitals, shortages of paper for books and school supplies, and many other shortages that were not generally present, or were not seen, during pre-revolutionary days. There appears to be little or no investment in the private commercial sphere, and industrial production continues to fall.

But Nicaragua's economic progress takes on a very distinct image when it is compared with the recent historical record for Central America as a

whole or for Latin America as a region. Table 2 places key dimensions of the Nicaraguan economy in such a context. The cumulative Nicaraguan economic growth of 22.5% from 1979 to 1983 must be compared with the Central American average growth experience over the same interval, a decline of 5.7%, and with that of Latin America as a whole, a cumulative 2.7% growth.

The real standard of living in Nicaragua, as measured however imperfectly by GDP per capita, improved by more than 7% from 1979 to 1983, without taking into consideration the significant redistribution of income that has also occurred. This improvement for the Nicaraguan people took place at the same time that the standard of living was falling by a cumulative average of 14.7% in the Central American region and by 9.2% for Latin America as a whole.

It would be facile, and fundamentally incorrect, to argue that the relative Nicaraguan performance simply meant a "rebound" from the disasters that accompanied the insurrection in 1978 and 1979. Figures A-1 and A-2 demonstrate the depth of the declines in production and in standard of living that took place in those years. One could only argue that there was a simple "rebound" if the damages incurred during the revolution were not severe and if there had been no changes in the external markets faced by Nicaragua after the revolution. But the losses and destruction during that period, as discussed in greater detail below, were profound and permanent. Furthermore, Nicaragua faced in 1980 through 1983 world market conditions for its exports and world financial conditions for its financing that were certainly no better than those faced by other Central American nations or Latin America as a whole.

Table 2 also places other dimensions of recent Nicaraguan economic performance in a context that permits clearer evaluation. The rates of inflation experienced in Nicaragua were, in fact, comparable to those encountered in all of Central America. The four-year total of 101.1% for Nicaragua is only 23% above the regional average; and it is less than one-third of the average inflationary experience of Latin America as a whole during the same years. What the table fails to convey is the fact that the Nicaraguan program for rationing basic commodities has kept the absolute

Table 2.

Evolution of Comparable Economic Indicators for Nicaragua, Central America, and Latin America

	1976	1977	1978	1979	1980	1981	1982	1983 (a)	1979-83
Real GDP Growth (%)									
Nicaragua	5.1	6.3	-7.2	-25.9	10.7	8.7	-1.2	5.3	22.56
Central America (b)	6.1	7.5	3.1	-2.6	1.6	-1.7	-4.7	-0.4	-5.70
Latin America	5.5	5.1	4.7	6.6	5.9	1.5	-1.1	-3.3	2.70
Real GDP/Capita Growth (%)									
Nicaragua	1.6	2.8	-10.2	-27.5	6.7	5.3	-3.9	2.6	7.60
Central America	2.9	4.3	0.04	-5.4	-1.4	-3.8	-7.1	-2.5	-14.70
Latin America	1.1	2.4	2.2	4.1	3.4	-0.9	-3.3	-5.6	-9.10
Consumer Price Changes (%)									
Nicaragua	6.2	10.2	4.3	70.3	24.8	23.2	22.2	37.3	101.10
Central America	8.1	9.1	8.3	26.0	16.9	23.6	25.0	13.3	78.80
Latin America	61.5	40.1	39.1	54.1	52.8	60.8	85.6	130.4	329.60
Export Growth (%)									
Nicaragua	44.5	17.5	1.5	-12.2	-20.8	10.9	-14.2	0.3	-24.10
Central America	32.0	31.8	1.1	12.1	1.4	-7.2	-11.2	-2.4	-19.40
Latin America (c)	15.1	18.9	7.5	22.1	18.2	2.0	-8.5	-1.3	27.40
Import Growth (%)									
Nicaragua	0.6	45.2	-21.4	-41.1	143.6	11.7	-28.0	5.0	101.80
Central America	15.3	31.3	7.9	1.6	35.6	-2.0	-21.2	2.7	15.00
Latin America (c)	13.6	14.8	13.8	25.9	32.3	7.6	-19.9	-28.7	-8.70
Growth of Foreign Debt									
Nicaragua	9.7	32.8	11.2	14.2	17.2	67.8	29.3	21.0	199.00
Central America	25.8	27.1	24.3	27.1	25.1	51.1	11.9	22.4	151.00
Latin America (c)	29.7	25.3	30.2	17.7	17.2	21.8	12.2	7.3	76.00
Ratio of Interest Pmts. to Exports of Gds. & Serv.									
Nicaragua	---	7.1	9.3	9.7	15.7	15.5	31.7	36.1	
Central America	---	5.3	7.2	7.9	11.2	14.1	21.3	22.7	
Latin America (c)	---	11.9	15.1	18.8	23.3	31.3	46.2	39.1	

(a) Preliminary figures based on early 1984 estimates.

(b) Unweighted averages of the 5 traditional Central American nations: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

(c) Non-oil-exporting countries only.

Sources: U.N. Economic Commission for Latin America, "Preliminary Overview of the Latin American Economy During 1983," E/CEPAL/G.1279, dated 29 December 1983; Economic Survey of Latin America, Various Issues, and ECLA, Centroamerica: Evolucion de Sus Economias en 1983 (Version Preliminar)," April 1984.

Figure A-1.

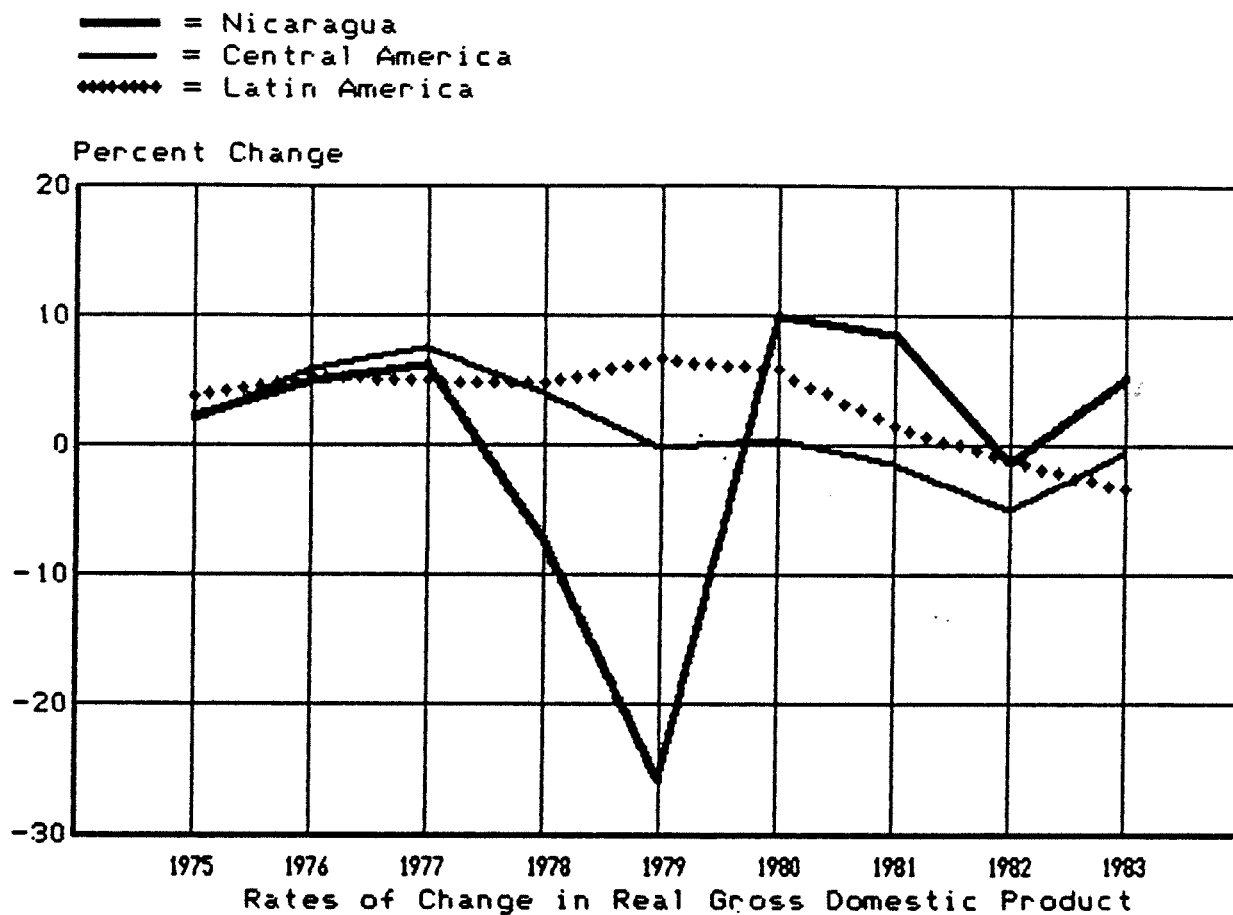
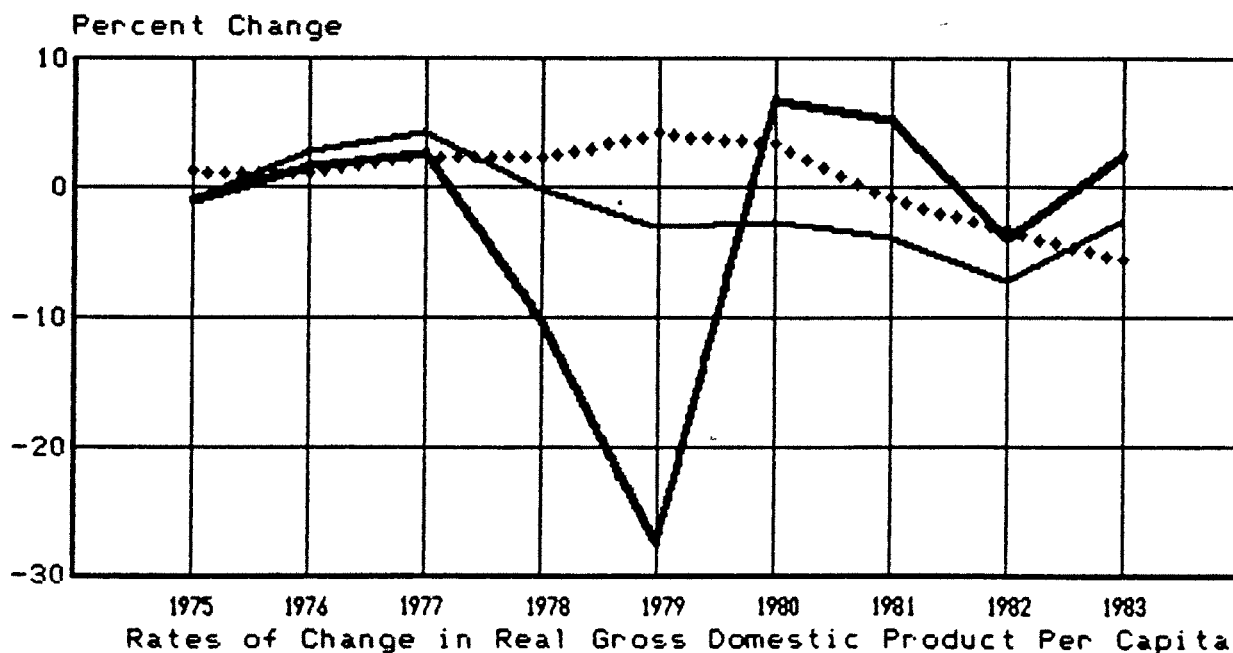


Figure A-2.



cost of basic commodities at one-half the cost found in the rest of Central America and has kept inflation in the prices of those basic commodities to less than one-quarter of the rate of inflation in the rest of the region <Inforpress, 1983>.

The decline in the value of Nicaraguan exports from 1980 to 1983, a total of 24.1%, is only slightly above the region-wide average decline of 17.9%. But Nicaragua managed to increase its imports (and, hence, total supply), far more than the region as a whole, adding increases in imports in all years but 1982 that were considerably above the average increases for the region as a whole, especially in 1982 and 1983 when Latin American import capacity fell by an average of more than 20% per year.

The fact that Nicaraguan debt has grown by a factor of 1.9 since 1979 is less startling when viewed in the overall Central American context in which debt has grown by 151.6% over the same period. The surge in the ratio of interest payments to exports of goods and services leaves Nicaragua at the end of 1983 with a ratio that is higher than the Central American regional average but below the Latin American average of 39.1.

These data on the last five years of economic results in Nicaragua clearly reduce the opportunity to suggest that Nicaraguan economic policy can be dismissed as a simple failure. Using only the most aggregative measures, those favored by relatively conservative evaluators, one can see that the Nicaraguan economy produced results over four years that were distinctly better than either the Central American averages or the Latin American averages on most terms. Even if we ignore the widely documented internal social changes, advances in literacy, public health, and education, and the external military aggression to which Nicaragua has had to respond, the Nicaraguan economic record is impressive.

Why, then, the concerted attempts to de-legitimize those processes? An answer to that question requires an exploration of both theory and ideology of development.

Differing Theoretical Approaches.

There are three broadly-stroked approaches to Latin American development and underdevelopment prevalent in Latin America today. Clustering all of the apparently-distinct schools of thought into these three groups does injustice to the fine distinctions among them that adherents of one or another school spend considerable energy maintaining. But the history of Latin American economic thought tends to converge, not many years back, in the fundamental approaches discussed here. Each of the approaches comprises a paradigm in that it is, arguably, a world-view endorsed by a community of scholars, policy-makers, and others who are working on a particular topic. They also suffer from the obstinacy of "paradigm blindness." For, as noted by Wilber and Jameson, "even when the questions are not addressed with a high degree of success, i.e., when there is a crisis in the community, members of the community continue to follow the paradigm's guidelines rather than breaking with that world view and adopting another" (1979; p.3). This paradigm blindness may account for a significant part of the polarization encountered over Nicaragua.

The Neo-classical Developmentalist Approach. This is the set of traditionally conservative theories that traces its lineage from the Classical Liberal writers of the 18th and 19th centuries (Adam Smith, Thomas Malthus, David Ricardo, John Stuart Mill, etc.) as transformed and "modernized" by more recent authors, such as Rostow, Kuznets, Lewis, et. al. This approach has consistently formed the core of U.S. foreign economic policy, and it constitutes the theoretical basis most frequently found among the technicians of the major international institutions with headquarters in Washington, such as the World Bank, the International Monetary Fund, and the Inter-American Development Bank. These writers and these institutions endorse laissez faire capitalism as the most efficient and, at least in the long run, the most equitable basis for the development strategies of the Third World. (See, for example, The World Bank, 1981; and U.S. Department of Treasury, 1982.)

The neo-classical approach emphasizes, of course, the tenets of competitive market allocation, both domestically and internationally, and it tends to associate the causes of underdevelopment with inappropriate pric-

ing, inadequate domestic savings, capital shortages relative to development prospects, excess population growth, and inefficient internal organization of the economy. The most common policy prescriptions for development include: encouraging foreign private investment as a source of badly-needed capital; reducing population growth rates by spreading population control programs; creating competitive domestic capital markets to mobilize local savings; and pursuing free-trade policies based on current international comparative advantage. The benefits of development are expected to accrue to the majority of the members of society under this perspective through "spread" or "trickle-down" effects from the pursuit of private accumulation and investment. It has become a de facto characteristic of the approach that national economies are viewed most often as individual, autonomous entities capable of competing as equals in international markets. They are assumed to possess, in general, all the policy-making instruments and influence needed to determine their own futures.

The relatively "more progressive" versions of this orthodox approach may be found in the attempts to focus directly on some levels of inequity or to develop more clearly directed development programs oriented to "basic needs." The "growth with equity" school <cf. Chenery, et al., 1974; and Weaver, et al., 1981> represents a relatively minor modification of the laissez faire approach that seeks to remedy the most obvious debilities in the historical experience of the orthodox approach: the stagnation of real income for the poorest portions of even the fastest growing countries, the persistence of widespread unemployment, and the worsening of interpersonal income distributions <Wilber and Jameson, 1979; p. 12>. The "basic needs" approach attempts to transcend the "trickle-down" bases of the orthodox approach by focusing on mobilizing particular resources for particular groups identified as deficient in certain resources," such as adequate caloric intake, minimal health services, or the simplest of shelter <Streeten, 1979; p. 73; see also ILO, 1977>. The modifications in development strategies called for by this variant of the orthodox approach have grown in respectability among scholars in recent years, but they have lost much of their impetus among increasingly conservative policy-makers since the election of Mrs. Thatcher and Mr. Reagan.

It is significant that the development of the orthodox developmentalist perspective is almost entirely alien to Latin America. There have been virtually no major Latin American contributors to the fundamental theories of the approach. There are virtually no internationally-renowned training centers for advocates of this perspective in Latin America. And the leading exponents of the approach to whom Latin Americans continually refer are either Northamericans or Europeans.

The Latin American "Structuralist" Approach. This Post-World War II theoretical development of the Economic Commission for Latin America is based heavily on the research and writing of Raul Prebisch, the first Executive Secretary of ECLA, and his students and colleagues. <See Prebisch, 1949; ECLA, 1951; Furtado, 1976; and Furtado 1979> It is a fundamentally non-Marxist approach that asserts that unfettered laissez faire policies have lead consistently to the proliferation and the perpetuation of disadvantageous positions for all of Latin America. It is called a "structuralist" approach because its advocates posit a series of characteristics of the underdeveloped economy (and characteristics of the international economy within which underdeveloped economies are expected to function) that are obstacles to development while being, at the same time, part of the "structure" of the international capitalist system. For example, structuralists have long noted that pursuit of free trade based on momentary comparative advantage relegates most the Third World to the production of unprocessed raw materials that generate little income, that are subject to vast and violent price fluctuations, and that often create secularly worsening terms of trade.

The policy prescriptions of the "structuralists" have tended to incorporate some or all of the following suggestions: an expansion of the role of the government in managing foreign and domestic financial flows in order to facilitate capital accumulation; policies of qualified protectionism in order to create the environment within which local industry can be given "infant industry" protection while beginning to substitute local production for previously imported products, creating higher income jobs at home; and income-redistributive domestic policies designed to stimulate the growth of the domestic market. Most economic allocation is nevertheless left to the

functioning of private markets; and the anti-capitalist rhetoric of ECLA is rather carefully couched in terms that describe faults in the current international capitalist system without suggesting that the abandonment of that system is needed as a remedy <ECLA, 1970>.

As the quasi-official perspective of ECLA and as the perspective implicit in most of the massive quantity of economic analysis that ECLA has undertaken in Latin America over the past 35 years, the "structuralist" school enjoys greater respect among Latin American officialdom than virtually any other. It offers explanations for the relative underdevelopment of Latin America that, rightly or wrongly, shifts some of the blame for persistent poverty away from the impoverished people themselves. And it provides a relatively coherent basis for an "activist" approach to government intervention in the interest of development. It has undoubtedly gained in political influence over alternative interpretations of the economic world in part because it provides a basis for state intervention to support private enterprise, securing for some entrepreneurs the benefits of monopoly profits, direct state subsidies to the costs of capital and labor, and solutions by the state for social problems that are production or employment related.

The "structuralist" approach blossomed initially in Latin America and spread from there to other parts of the world. It has been shared, modified, and expanded by Cambridge School economists and the ILO; but its greatest number of adherents, both among writers, government officials, and academic training institutions is clearly in Latin America. One consequence of this relative hegemony in Latin America is that there are few Latin Americans who have a truly laissez-faire socialization. Fundamental distrust of the neo-classical developmentalist approach runs deep in Latin America among even the business community and pro-capitalist scholars and officials.

Neo-colonial Dependency Approach. This category of approaches, for it is far less homogeneous than the previous two, encompasses fully Marxist analyses, Leninist interpretations of imperialism, and a very large quantity of contemporary interpretations of Latin American underdevelopment. They

share several common bases: an acceptance of Marx' fundamental critique of capitalism and, therefore, a search for alternative bases for the most basic levels of social organization; an historical approach that seeks to explain Third World immiseration as a direct product of domestic and international capitalist forces; and, for that reason, a strong predilection to dismiss market forces as bases for allocation, even under government control, and to substitute central planning for market processes.

The heterogeneity of this category of approaches is reflected in the distance that existed between the economic policies of the Allende regime, tempered in pragmatism and respect for democratic processes and the far-more-radical policies demanded by his vocal left-wing opposition. Its principal contributors have included Paul Baran <1957>, Andre Gunder Frank <1969>, Arghiri Emmanuel <1976>, Samir Amin <1976>, Cardoso and Falletto <1979>, and other contemporary intellectual leaders throughout Latin America and the rest of the Third World, as well as in the more-developed areas.

If the structuralist approach dominates economic policy in most of Latin America, the neo-colonial dependency approach dominates the political and intellectual discourse of the center-left and left opposition. It is the intellectual underpinning of most of the insurgent movements in the hemisphere, although differences across groups within the same general framework account for much of the fragmentation of the left opposition groups in many countries.

The critiques of the approach, both from within and from without, are almost as numerous as the direct contributions. And there have been fewer opportunities in Latin America to develop concrete programs and coherent sets of day-to-day policy based on this perspective. The Cuban experience represents the best example to date of successful implementation of policies drawn from this perspective. But even the Cubans themselves, in open discussions with their "friends" around the world emphasize the uniqueness of the Cuban experience, the mistakes that they made, and the need for the development of locally-specific new approaches.

The policies most consistent with the strict interpretation of these theoretical approaches tend to include rapid movement toward the elimina-

tion of private ownership of the means of production, a rapid expansion of central planning within the economy as a whole to substitute as widely as possible for market-based allocation of resources, and the creation of collective forms of production to eliminate private and individualistic production. Although there has been a strong movement toward further decentralization of decision-making in Marxist Eastern Europe and in Cuba, there remains very little role for market-based decision making in those economies. "Marxist-socialist" societies, in transition to the full communism advocated by this approach, show clearly-definable characteristics according to Gurley: " a Marxist-Leninist party that has led the proletariat to power in a revolutionary way, established a dictatorship of the proletariat, and adheres to the principles of proletarian internationalism" and "production in which industry is nationalized, agriculture collectivized, and national planning established..." <1979; p. 249>.

Marxist approaches to underdevelopment create relatively clear and coherent analyses of the origins of economic crisis and suggest internally consistent long-term policy directions. But there has been much less development of concrete programs for transition from capitalist underdeveloped societies to socialist and, ultimately, fully communist societies. There is considerable consciousness, among writers in this vein, of the need for historically-specific policies that reflect inherited conditions, including the level of development of the class struggle and external constraints on development. The development of concrete policies for transition, applicable generally in cases such as that of Nicaragua, remains a challenge to this approach.

Differing Perspectives on Pre-Revolutionary Nicaragua.

One finds perhaps the best applications of the neo-classical developmentalist approaches in the documents of the World Bank, AID, and the Inter-American Development Bank. If one looks, for example, at the pre-revolutionary reports which they published on Nicaragua, the outlook and perspectives are quite sanguine.

The first World Bank mission to Nicaragua, from July 1951 to May 1952, reported that the principal weaknesses in the Nicaraguan economy were

basically administrative: an "archaic fiscal system," an inadequate transportation system, an ineffective credit system, and the absence of "long range planning and... a concrete investment program within the government" <IBRD, 1953; p.4>. The mission's report called for programs to improve sanitation, education and public health because, in its own words, "Without exception, the mission found that in every sector of the economy high disease rates, low standards of nutrition, and low educational and training standards are the major factors inhibiting the growth of productivity" <p. 22>.

The crucial role of the private sector was explicit. "Up to the present time," the report noted, "domestic private investment has, with few exceptions, done relatively little to develop the country's productive capacity." But, it noted,

"In view of the extraordinary opportunities for private investment, which should increase further with the rising rate of public investment and the moderate tax rates, private capital has a favorable economic environment. It should play a major role in promoting the country's rapid development. It is particularly desirable that it do so" <pp.97-98>.

The mission concluded that the "progressive measures" undertaken by the Somoza government at that time, including reducing inflation by balancing the budget, beginning the formulation of a five-year plan, calling for fiscal reform and creating a National Economic Council composed of business leaders, represent "the achievement of a government alive to the needs of the country and with the will and desire to progress" <p. 6>.

If one reviews pre-revolutionary issues of the Inter-American Bank's annual report on "Social and Economic Progress in Latin America," the problems that Nicaragua faced were antiseptically technical. Prices would tend to rise in some years because credit expanded too much, the government would begin one new program or another, and the only alarm that might be raised concerned "imbalances": occasionally excessive deficits, credit expansion that created inflation, balance of payments problems, etc. "Economic progress" was defined, implicitly, as avoidance of crises, primarily crises in terms of major aggregate "imbalances." The problems of each year, whether unexpected declines in the prices of export products or

increases in the costs of imports, capital inflows for new foreign investment projects or outflows in pursuit of better opportunities, were treated as the normal vicissitudes to which a nation must be prepared to adapt itself in order to progress.

Nicaragua was, from the orthodox perspective, a country without significant and tangible obstacles to economic growth during the 1960's and 1970's. It was a country that participated in the Central American Common Market, grew relatively strongly through the 1960'S, and suffered from the common problems of the entire region in the 1970's. Nicaragua enjoyed the second highest average rate of GDP growth in the region from 1950 to 1960, 6.1% per year, well above the 4% to 5% experienced in Guatemala, El Salvador, and Honduras, and topped only by the 7.3% annual growth in Costa Rica. From 1961 to 1968, Nicaraguan aggregate growth was the strongest in the region; it averaged 9.8% per year, falling to an average of 6.7% per year from 1969 to 1977 <Cline and Delgado, 1978, p.61; and IDB, 1978, p.8>. There was some attention drawn to a thirty-fold increase in foreign debt from 1960 to 1976 (from \$21.7 million to \$702.3 million), but since agricultural exports were also increasing the debt servicing was not seen as a serious problem.

The Nicaraguan revolution was a severe blow to the prospects for continued evaluation using the neo-classical developmentalist perspective. The Kissinger Commission, although heavily-weighted toward conservative business-based members, was forced to step well outside of the orthodox paradigm to explain the crisis. It turned, in fact, to ECLA for an historical overview of the crises in Central America. "In ECLA's judgment," the Commission reported, "-- and the other experts consulted on this point were in virtually unanimous agreement -- 'the fruits of the long period of economic expansion were distributed in a flagrantly inequitable manner'" <p. 23>. The Commission was even less kind to the pre-revolutionary Nicaraguan leaders in its post-revolutionary evaluation. The Somoza regime, it suggested, "was characterized by greed and corruption so far beyond even the levels of the past that it might be called a kleptocracy; it included a brazen reaping of immense private profits from international relief efforts following the devastating earthquake of 1972." And "...repression became

systematic and increasingly pervasive."

The World Bank's first post-revolutionary re-assessment of Nicaragua also forced it to look at dimensions that it most often omits from its analyses. The Bank's 1981 report discovered vast inequality in the distribution of land: "...fewer than 1,500 estates with over 350 hectares each controlled 38% of the land in farms and ranches....In the most densely settled Pacific region... fewer than 750 farms had more than two-thirds of the farm land" <World Bank, 1981; p.8>. It found landless, desperate rural families: "... about 50,000 before the revolution, equivalent to about one-fourth of the total number of rural families" <ibid.>. But to this day the World Bank avoids involvement in programs that expropriate and redistribute land (even with complete compensation) in response to these inequities.

The Structuralist View. The structuralist perspective on Central America has gained considerable increased credibility in view of the problems that the economies of the region have been facing for the past ten years. ECLA has emphasized three dimensions of the background for the Central American crisis that were specifically relevant to Nicaragua. The ECLA perspective, in looking at pre-revolutionary Nicaragua, emphasizes the fundamental instability of the external orientation of the economy, the fact that "development" occurred for only a minority and that it was "superimposed" on a strong prevailing existing minority structure of economic power leaving basically untouched the majority of the population of the nation <ECLA, 1983b>.

Structuralist perspectives on Nicaraguan underdevelopment note first that the limited growth that was achieved in the 1960's and 1970's was brought about by expansion of production for export into raw materials markets where prices were notoriously competitive, unstable, and depressed. They note, further, that Nicaragua is inevitably a small, fragile participant in the global economy, producing less than 0.5% of Latin America's total GDP with 0.8% of the region's population. That fragility and instability would be further emphasized by noting that 40% of the nation's internal financing during the 1970's came from foreign banks.

ECLA estimated (and the Kissinger Commission also echoed) that 63.7% of the population of Central America and 62.5% of the pre-revolutionary Nicaraguan population were in a state critical poverty, in the sense that their incomes did not cover their most basic needs. Nearly 35% of the Nicaraguan population was characterized as being in "extreme poverty." This meant that they "did not even have sufficient income to cover the value of the minimum shopping basket of food considered necessary in order to meet their biological nutritional needs" (ECLA, 1983b; p.13).

The concentration of wealth and its inherently anti-democratic consequences represent the third strain of structuralist approach to Nicaragua's past. The wealthiest 20% of the Nicaraguan population prior to the revolution received 58% of all the income generated in the nation, the highest proportion in the region with the single exception of El Salvador, where the richest 20% receive 66% of all income. The poorest 50% of the population of Nicaragua received only 16% of all income, providing them with an average annual income of about one-tenth the average income of the wealthiest 20%.

The More-Radical Perspective. From a neo-colonial dependency perspective, the structuralist analysis is inadequate; for the structuralists tend to avoid going beyond the identification of the elements of injustice and inefficiency to an analysis of the basic underpinnings of the society that created them. Marxist analyses of the pre-revolutionary period of Nicaragua are more distinctly historical and more concretely global than the descriptions provided by the structuralist approach.

From the more radical viewpoint Nicaraguan underdevelopment is a direct and inevitable product of the role that it has been assigned or allowed to play in the development of the global capitalist system. Those periods of economic boom that it has known have been almost uniformly linked to direct foreign investment or foreign lending for the development of export products. The persistence of abysmal social and economic conditions represented a conscious attempt to keep the costs of reproducing the labor force to a minimum. Control of the nation by elites whose fortunes were amassed through participation in this international exploitation of the Nicaraguan working class was maintained as needed by the use of mili-

tary force, foreign economic assistance, and an evolving regional and international network of defense agreements, economic pacts, and information exchange. Capitalist development at the global level was the source of Nicaragua's problem, not its solution.

Marxist interpretations of the pre-revolutionary history delve more deeply into the nature of the growth spurt that Nicaragua enjoyed from 1950 to 1977 and into the class-based contradictions that were created. The export-led growth, especially the rapid expansion of commercial cotton production and import-substituting industrialization created a new composition and differentiation of classes, according to Herrera Zuniga <1979, p. 23>. The processes of cotton-expansion provoked widespread displacement and proletarianization of the peasantry and clearly traceable concentration in land tenure. Central Bank data from the period indicated that the average rural wage worker in 1976 only worked 78 days a year and at an average salary of \$2.50 per day <p.24>. And import-substitution under the Central American Common Market displaced additional thousands of artisans.

The transformation of the state into a developmental protagonist, following the advice of the World Bank Mission in 1953, led to consolidation of Somoza's control over virtually every aspect of the nation's developmental processes, converting the state into the proponent of the infrastructure projects needed by Somoza's private investment group and generating "an intense gamut of social and economic contradictions" <Herrera Zuniga, p. 27>. Somoza was able to co-opt much of his opposition through his control of state employment, state projects, and state subsidies to finance. But the same policies radicalized the opposition in the powerful economic groups that competed with his. The use of the state to subsidize private profits created the highest profits in the region but shifted the costs to consumers and non-benefitted producers. And the use of the state's repressive powers left Nicaragua with no vent for worker protest; for Nicaragua had fewer than 11,000 unionized workers in 1975, less than one-fifth the region-wide average <Cline and Delgado, 1978, p.188>.

The high profitability of cotton production led to further expansion of many new firms and the duplication of investments and activities without

the needed expansion of the domestic markets. The resulting reduction in levels of profits led businesses, with the open assistance of the state, to reinforce the levels of exploitation of workers during the early 1970's. The internal split in the bourgeoisie coincided with the organization of new forms of organization among the workers to resist the heavier hand of state intervention and repression, and the now-famed broad-based Sandinista revolution resulted.

A Marxist interpretation of the last years of the Somoza regime would also note the "disciplinary role" played by international capital markets in keeping governments and, hence, nations "in line." The economic collapse of the Somoza regime began in 1978 when the "September Insurrection" demonstrated to the world that the workers of Nicaragua had far greater possibility of resisting their roles than anyone had previously realized. It is an irony that can be read from even the statistical tables of the World Bank that the flight of domestic capital and a dramatic reduction in public and private foreign lending to Nicaragua in 1978, prior to the revolution, undermined Somoza at precisely the moment when he needed more international assistance to resist the insurrection, not less.

The Costs of the Insurrection.

There is rather striking agreement among all sources on the costs of the Nicaraguan revolution. Virtually the same estimates appear in Nicaraguan government documents, World Bank studies, and ECLA reports; and there is little difference in interpretation of the profundity of the long term costs.

The toll was enormous. The lowest estimate of the human toll suggests that 30,000 people were killed in political violence during the last two years of the insurrection alone. This is ten times the number of persons killed in the Cuban Revolution, and the Cuban population was three times larger than the population of Nicaragua. The more commonly-cited statistic suggests 50,000 persons died from political violence over the 5 years prior to July 1979, including many thousands who disappeared without a trace <ECLA, 1981>. The vast majority died at the hands of the Somoza government; and the greatest physical damage was attributed to the bombing and

strafing of cities by the National Guard and to looting during the days of their waning control.

According to the World Bank, private investment shrank to virtually nothing during early 1979, construction was virtually halted, real GDP dropped by 25%, and virtually all production ceased for the two months of June and July. The income foregone from late 1978 to early 1980 because of the insurrection and its direct damages exceeded 2 billion dollars, the value of a full year of GDP <World Bank, 1981b>. (That would be the equivalent of a \$1.3 trillion loss to the U.S. economy at the same time.)

Direct damages to factories and stores and the looting of inventories of both raw materials and finished products affected nearly every business in the nation, whether bombed by Somoza's airforce, caught in crossfire, or broken-into during the disorders. The total direct damages estimated by a special ECLA mission during the months immediately following the end of the insurrection exceeded \$480 million.

The World Bank mission a year later in October 1980 also estimated that the flight of capital prior to and during the conflict "exceeded half a billion dollars" <1981b, p. 2>. ECLA reported that the banking system, when nationalized, was found to have been "completely decapitalized," virtually insolvent because of many transactions during the last phases of the conflict which were "of doubtful legality and completely illegal" <p. 24>.

Both organizations noted that the foreign debt inherited from the Somoza regime, approximately \$1.6 billion, was a particularly acute problem. For there had been extensive short-term borrowing from commercial lenders during the last two years of the Somoza era.

The crucial and immediate need for external financial assistance was emphasized by both reports. The very viability of the financial and monetary system and, as a result, economic stabilization in general depended upon obtaining ample new foreign resources to rehabilitate the nation's productive capacity, according to ECLA. "If it does not receive these resources, the country will face a cruel dilemma: a monetary disequilibrium and the unleashing of further inflation or an even greater contrac-

tion of economic activity under conditions when an elevated proportion of the population is now unemployed"<p. 24>.

The World Bank mission's assessment was identical. In the first place, it noted, "the negative consequences of the war are far from over. Per capita income levels of 1977 will not be attained, in the best of circumstances, until the late 1980's" <p. ii>. "The next two to three years will be difficult and the probabilities of debt-servicing and financing problems are high. However, if Nicaragua can obtain substantial financing in the near term, a considerable improvement in its creditworthiness three to four years hence can be foreseen..."<p. 57>.

The Bank's assessment, however, seems to have been converted into a blueprint for subsequent anti-Nicaraguan policies. For it noted also that "any untoward event could lead to a financial trauma, since the country would not be able to obtain commercial financing as a buffer. Moreover, it would be very difficult indeed to restrain consumption for such a long period" <ibid.>. The mission's report concluded that "it would be highly desirable for the country to receive external assistance at concessional terms and in excess of the foreign exchange component" <ibid.>. That recommendation was superseded by a subsequent Bank study, discussed below, that became the basis for cutting assistance to Nicaragua from the Bank, converting Nicaragua into one of the few clients of the bank worldwide who now pay more back than they receive.

The Economic Policies of the Post-Revolutionary Government.

There are several extensive discussions of the overall policies of the Nicaraguan government available in other studies. Let it suffice for our purposes here to list and discuss briefly the major characteristics of the policies prior to entering into a discussion of the responses that they have engendered from advocates of differing theoretical perspectives. (For fuller discussion of the policies, see FitzGerald <1982> and Sims <1981>.)

The Government of National Reconstruction, that took office in July 1979, included representatives of the full spectrum of political perspectives that supported the revolution. The junta included business-people, ranchers, guerrilla commanders, and representatives of the working class.

The economic model that was adopted by that junta, and which remains largely in effect to this date, reflects an early commitment to broad participation and economic pluralism. There are few major characteristics of Nicaraguan economic policy five years after the revolution that were not originally implemented by that first broadly-based junta.

The new Nicaraguan government officially characterized its goals as the pursuit of "development and the mixed economy." That mixed economy consists, in the government's vision, of four principal sectors: traditional businesses in the private sector, the state sector, production cooperatives in the city and the countryside, and the peasant and artesanal sector <JGRN, 1982; p.9>. The state sector consists of traditional government production and services (postal services, telecommunications, defense, etc.) and the public sector that was created, with virtually universal support throughout the country, from the expropriated properties of Somoza and his closest personal, political, and business associates.

Somoza's control over the economy was so pervasive that the state found virtually 25% of all production in its hands immediately after the end of the insurrection. By late 1980 the expansion of government services and the consolidation of state control over partially-expropriated firms (by buying-out minority partners) left 41% of production under direct state control <Petras, 1982; p.95>. The proportion has remained the same to this date, although there is considerable debate about whether cooperatives should be classified as private or public. The distribution of titles to thousands of members of agricultural cooperatives for full private ownership of previously-expropriated land has increased the share of agricultural production in the private sector. But increases in productivity in state sector farms and industries has expanded public sector production proportionately.

The satisfaction of basic needs is listed by the government as "the underlying principle of the overall development strategy" <JGNR, 1982; p.10>. It attempts, formally, to fulfill this goal by expanding popular participation in the provision of health and educational services, through agrarian reform, and by rechanneling credit to the small farmers, small

private producers, cooperatives, and the state sector. There is no evidence that significant changes in those proportions are contemplated or are being produced.

The consensus among many observers of the Nicaraguan economy suggests that the following are the other principal components of the economic strategies to date:

A) Market pricing and allocation determine the vast majority of all economic decisions within the country. Although minimum wages have been established for all areas and all types of work, there has been no attempt to plan, allocate, or otherwise organize labor markets in the form that characterizes the actually existing Socialist countries.

B) There is government control over all imports and exports through a new Ministry of Foreign Trade that is designed to eliminate the possibility of adverse foreign exchange movements through over-invoicing and under-invoicing, a chronic problem in much of Latin America.

C) There has been an agrarian reform that has affected approximately 30% of all arable land, converting about one-third into privately-held cooperative farms and the remainder into higher-technology state farms. Unlike any other agrarian reform in Latin America, however, the Nicaraguan government issued a decree in December 1983 that provides for a "guarantee of inexpropriability" for any land in production, regardless of the size of the holding.

D) There has been a government-encouraged increase in worker-participation at all levels of production, including reinforced union organizations in commercial and industrial establishments, a national farm-workers association, and associations for all professional workers, including direct representation of these groups on the legislative Council of State. These groups have been encouraged to monitor the application of the reinforced occupational safety and health legislation and to watch for "decapitalization" of firms and farms by private owners in opposition.

E) Private production in agriculture has been stimulated, at times, by direct government production contracts signed in advance of planting that stipulate the purchase price of seed, the cost and frequency of chemical applications, and the guaranteed purchase price for the harvest. No farmer is forced to produce according to these contracts; there remain open markets for the sale of all agricultural products throughout the country.

F) Prices and wages have been kept from rising by selective government price and wage controls. And there has been a deliberate effort to keep nominal money wages at relatively low levels; the increases in the provision of social services, although somewhat intangible for many workers, has been offered by the government as an alternative to higher money wages.

G) Rationing of several basic goods, primarily in Managua, has been instituted to regularize and guarantee the provision of basic commodities at subsidized prices to all families. Supplies of all rationed commodities (except gasoline) are traded freely in the marketplace at prices considerably above the subsidized basic ration price.

Differing Assessments of the Economic Strategies.

The Nicaraguan government does not consider itself or call itself a Marxist government. There is, in fact, no nation in the world that calls

itself "Marxist" and that still depends on so many characteristics of the free-enterprise system. But that does not mean that those who had benefited under the laissez faire policies of the Somoza era can be expected to accept the "changes in the rules of the game" that have been embodied in the design of the new Nicaraguan social and economic structure. This new society is "totalitarian" for them. They have lost significant elements of their freedom to produce and trade without government intervention. They have also lost much of the political influence that they enjoyed when power was closely associated with personal wealth. It is not surprising, then, that representatives of the U.S. business press can find, whenever they wish, individuals who are willing to speak against the policies of the government.

The orthodox perspective. From this point of view, there are many problems with the strategies that have been followed and the nature of the "new Nicaraguan economy" that is being created. These attitudes are especially apparent in the publications of COSEP, the Private Enterprise Council, that continues to function and to comment vociferously on government policies. From the COSEP perspective, the new economic strategies concentrate excessive and inappropriate control in the public sector. This has been accompanied by excessive deficit spending that undermines the private economy and that is not sustainable. The profit incentives provided in production contracts are considered insufficient, and government encouragement of worker organization has meant that worker discipline has broken down. Private investors argue that it is no longer attractive to invest in Nicaragua, even by comparison with the low current returns available on investment in other parts of Latin America <cf. COSEP, 1981>.

It is also argued that the expansion of government production and the imposition of government controls over finance and exports represents an unstable balance of government and private sector that must tilt either one way or the other. Either there must be movement toward much greater private sector domination of the economy or there must be a move toward full state socialism (which they simply call communism).

The World Bank's last assessment of economic conditions in Nicaragua

reflected many of these positions <World Bank, 1982>. This last report, as distinct from the report of the mission from October 1980, reflects both the internal political changes in the Bank as much as changes in conditions in Nicaragua. Between the first Bank visit and the second, Robert McNamara was replaced by William Claussen as president of the Bank and the Reagan administration had begun to question the "political advisability" of continuing U.S. support for the Bank's programs. The new assessment of Nicaragua is surprisingly and harshly political by traditional Bank standards.

The new leaders of Nicaragua have created, the report admits, a "mixed economy" that "has left most productive and commercial enterprises in private hands, albeit under highly expanded government influence..." <p.1>. The Bank admitted that it had negotiated for the private sector in its dealings with the government, insisting on new "clear and consistent rules of the game for the private sector," acceptable to the Bank, as a pre-condition for any further Bank lending <p.12>. Although there is brief mention of the fact that Nicaraguan exports face declining prices, the principal focus of the Bank's critique rested with the alienation of the private sector and the consequences that would have on future exports, especially in view of the "unknown but probable poor efficiency <sic> of the state industries" <p.10>.

That the country is now "marginally creditworthy" is blamed primarily on problems in the growth rate of exports, leaving Nicaragua with foreign-exchange shortages as the "overwhelming medium-term problem." Solution of the problem, the expansion of exports, is said to be contingent on private sector participation. And that private sector cooperation "will not be achieved in the near future" <p.10>.

The Structuralist View. ECLA has led the hemisphere-wide campaign to increase awareness of the extent to which Latin American development problems are presently hindered by the deterioration in prices for products exported from the region and increases in prices of those that are imported. The campaign is particularly relevant to the current Nicaraguan situation. Table 3, for example,^{shows} that Nicaragua generated strong increases in the quantity of exports in two out of three of the years for which the new government was responsible for plantings. Export production was up 13%

Table 3.

Evolution of External Trade Relations: Nicaragua, Central America, and Non-Oil-Exporting Latin America

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1981-83
Exports: % Growth of Quantities	----	----	----	----	----	----	----	----	----	-----
Nicaragua	6.3	6.1	-2.7	6.7	-8.1	-30.7	13.0	-9.7	7.9	11.2
Central America (b)	2.3	5.8	1.2	5.0	11.5	-6.7	-2.1	-12.1	-4.7	-19.0
Latin America (c)	0.0	9.7	8.3	10.0	10.2	5.3	13.2	-3.3	9.1	19.0
Exports: % Growth of Unit Values										
Nicaragua	-7.1	36.3	24.3	-4.9	-4.5	14.2	-1.9	-5.0	-5.0	-11.9
Central America	5.6	24.8	30.8	-3.8	0.5	8.9	-6.7	-1.4	-0.8	-8.8
Latin America	-0.7	8.9	13.8	-2.5	10.7	12.2	-7.1	-6.7	-5.1	-18.9
Imports: % Growth of Quantities										
Nicaragua	-22.4	-0.2	23.7	-28.8	-48.6	95.1	7.5	-31.4	6.8	-31.4
Central America	-12.3	10.3	16.8	1.7	-10.4	11.4	-6.5	-24.7	2.4	0
Latin America	-5.7	-3.8	4.8	5.3	9.1	2.2	-6.9	-17.7	-13.2	-24.6
Imports: % Growth in Unit Value										
Nicaragua	15.0	3.4	6.3	10.3	14.6	23.1	3.9	5.0	3.0	3.9
Central America	12.9	5.1	10.1	6.4	13.8	19.6	4.8	4.6	0.4	0
Latin America	9.4	4.3	5.7	6.3	21.7	26.9	6.8	-3.2	-4.2	6.8
Terms of Trade: % Change										
Nicaragua	-16.1	17.7	27.4	-11.3	-11.9	-1.4	-5.8	-9.5	-7.8	-17.3
Central America	---	16.7	28.8	-9.9	-11.5	-3.8	-11.3	-5.7	-2.2	0
Latin America	-9.4	4.2	6.7	-7.6	-2.4	-7.2	-13.1	-7.6	-1.6	-22.3

(a) Preliminary data based on mid-year estimates.

(b) Unweighted averages for the 5 traditional Central American nations: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

(c) Non-oil-exporting countries, i.e. excluding Mexico, Peru, Venezuela, and Trinidad & Tobago.

Sources: U.N. Economic Commission for Latin America, "Preliminary Overview of the Latin American Economy During 1983," E/CEPAL/G.1279, dated 29 December 1983; and Economic Survey of Latin America, Various Annual Issues.

in 1980 and 7.9% in 1983. The damages of the insurrection in 1979 that disrupted plantings of the crops to be exported in 1980 led to the 30% reduction in export production that year. The decline in 1982 has been directly attributed in a separate ECLA document to the severe floods of May 1982 that left 70,000 persons homeless and destroyed nearly 45% of the cotton plantings <ECLA, 1982>. The net increase of 11.2% from 1981-83 contrasts markedly with the decrease of 18.9% for the Central American region as a whole, including four nations that presumably have no similar "difficulties" with private sector production!

The prices that Nicaragua has received for its export products, on the other hand, have fallen by 11.9% from 1981 to 1983, considerably more than the average for Central America (8.8%). At the same time, the international prices of the products Nicaragua imports have increased by 11.9% in the last three years and by 35% in the last four. Again, that was a greater increase than either the Central American average (9.8% from 1981-83, 29.5% from 1980-83) or the non-oil-exporting Latin American average. The net weighted result of the two price trends is reflected in the "terms-of-trade" data also on Table 3. Nicaraguan terms-of-trade have deteriorated by 24.5% over the past four years and by 23.1% in the last three. The Central American regionwide average also showed considerable decline, but not a decline in terms of trade equivalent to that faced by Nicaragua. The non-oil Latin American nations suffered a slightly greater loss in the purchasing power of their exports over the four-year period, but less of that decline in the last three. Figures B and C demonstrate graphically the relative magnitudes of the changes in export volumes and terms of trade.

ECLA's reports each year on Nicaragua have noted, without comment or evaluation, the improvements in the economy that have occurred. Improvements in the distribution of income and social programs that have benefited broad sectors of the population, financed by expansion of the government deficit and covered by foreign borrowing, are juxtaposed by ECLA against the deterioration of the terms of trade, and, for 1982, the severe "climatological" difficulties of the year. These reports have also noted, among the factors that Nicaragua has had to face, "tensions provoked by

Figure B.

- = Nicaragua
- ▨ = Central America
- ▧ = Latin America (Non-oil-exporting)

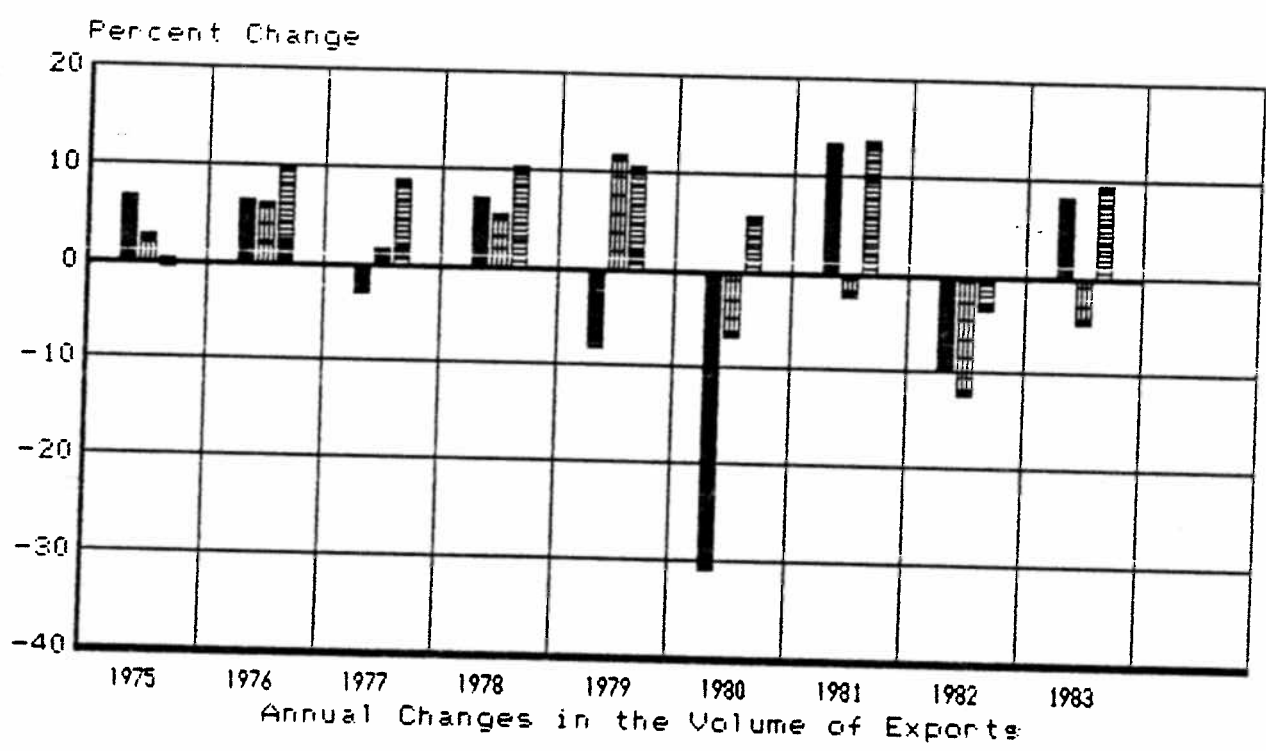
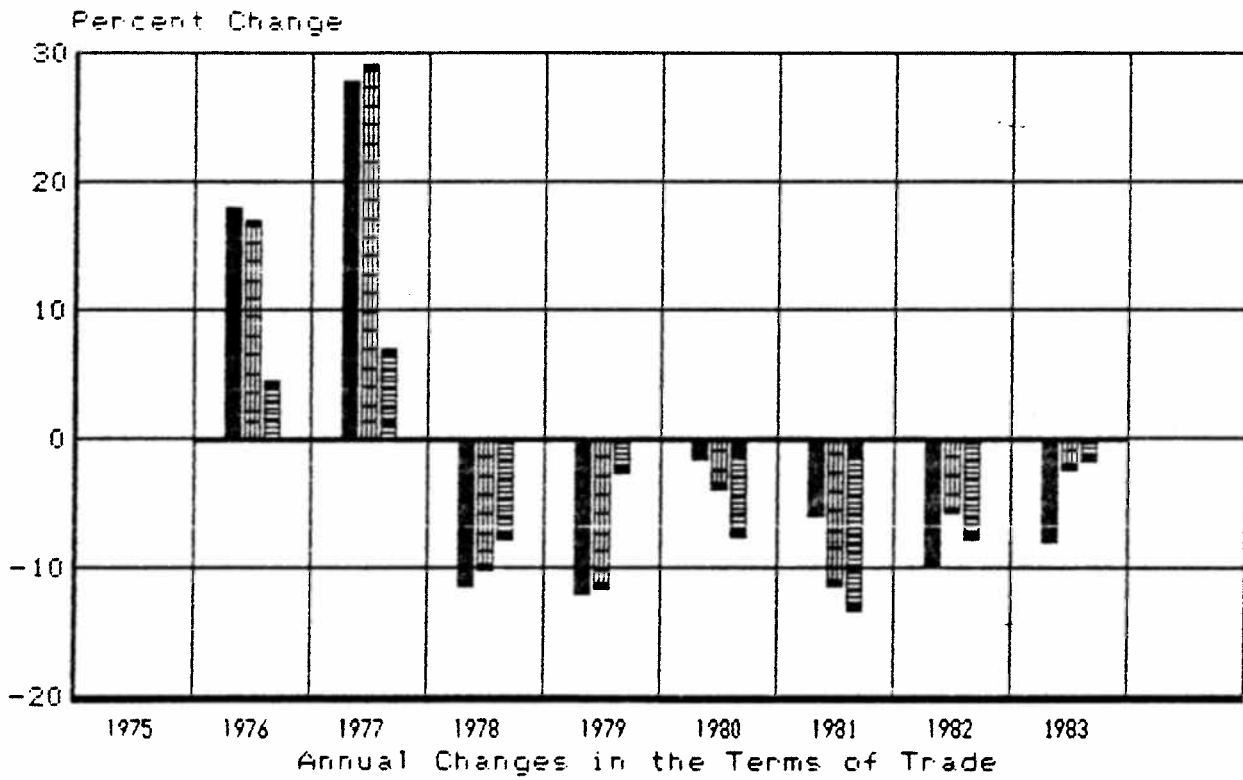


Figure C.

- = Nicaragua
- ▨ = Central America
- ▩ = Latin America (Non-oil-exporting)



groups opposed to the government that led to frequent situations of violence," "extra-economic" factors such as the increase in allocations to national defense in response to that violence, "the obstruction of foreign capital markets," "capital flight," and "the resistance of some entrepreneurs to accept the economic policies of the government" (ECLA, 1983c).

ECLA noted in particular that the decrease in output in 1982 was closely associated with the government's difficulty that year in obtaining the external finance needed to cover the shortfall in exports (p. 1). "These adverse conditions alone," it noted, "would have been sufficient to slow the expansionary trend in the economy and the execution of a variety of social programs that were to have been initiated that year" (ibid.). This was also the first year in which the deliberate policies of reducing financial assistance to Nicaragua were initiated by the World Bank. The rebound in external financial assistance in 1983 was accomplished despite the fact that the World Bank and the Inter-American Development bank had acceded to strong and public pressure from the U.S. government to reduce lending to Nicaragua.

The More-Radical Interpretation.

Some of the most coherent criticism from the Left of the Nicaraguan economic strategies has come from within Nicaragua itself. Much of the Left outside of Nicaragua has tended to hold in abeyance its critique of the Nicaraguan model because the external aggression that Nicaragua faces requires that solidarity be considered first.

At risk of creating a caricature, one can extrapolate from private conversations and indicate the critique that might be forthcoming. There are three dimensions of the present Nicaraguan model that may be inconsistent from a Marxist-Leninist perspective. First, the Sandinistas are creating a mass of internal contradictions and inconsistencies for the transition to a truly socialist state by offering or promising the private sector a continued and significant role in the economy. Second, the decision to continue to participate in the capitalist-dominated system of growth led by primary-product exports limits the possibilities for future growth as much as it limited the historical development of the nation and

continues to subject the nation as a whole to the opportunities for U.S. economic boycotts and to the vagaries of international commodity price fluctuations. And third, the severity of the financial attack upon Nicaragua should have been anticipated at the time that Nicaragua agreed to honor the foreign debts of Somoza; with more than 35% of exports now required simply to serve the foreign debt, default and separation from the international financial markets would have enhanced the prospects for full and rapid transition to socialism.

One can find some of these theoretical criticisms even among the writings of those who support the new Nicaragua. Henri Weber, for example, noted that during the first year "the FSLN's 'generosity' towards its real enemies and false allies <the bourgeoisie> aroused some fears, both in Nicaragua and elsewhere, that the Sandinists were giving in to the disastrous Stalinist line of 'revolution by stages' with the risk of losing control to the counter-revolution" <1983, p.106>. He also expressed concern that the FSLN's "productivist" austerity policy was roughly implemented and that it was "not winning them only friends" <p.111>.

A good example of the internal critique from the Left can be found in Vargas <1981>. Writing in Nicaragua, he has criticized the Sandinistas for their "consumerist" and "productivist" orientation, especially during the first years. They failed to take advantage, he suggested, of the "passivity of the greater bourgeoisie and the relative neutrality of the middle and petty bourgeoisie" when they did not press for greater and more radical economic transformations in the first years <p.67>. He would have expanded the state sector much more rapidly <p.83>. Price freezes in the growing state sector have effectively nullified savings in that sector, he suggests, and have served to subsidize the profit levels of the the private sector. Monetary expansion without essentially "squeezing" the private sector further has created multiple opportunities for the private sector to maximize profits by channeling them into non-productive, speculative ventures <p.87>. He criticizes the government for insufficient "golpes" against the "privileged classes" <ibid>. And, providing further irony, he suggested the same conclusion proposed by the World Bank at about the same time. It is, he suggested, "impossible to contemplate a 'harmonic,' equil-

ibrated and parallel development of the private sector and the state sector" <p.88>.

These comments are in no sense "representative" of all thinking about Nicaragua by adherents of the more radical analyses of underdevelopment. They do indicate, however, the extent to which much of Nicaraguan policy since the revolution has represented new and quite different approaches to the organization of a mixed economy. The Nicaraguan example has created new waves of debate, has opened new discussions of the possibilities for public and private interaction in the economy, and has led to richer analysis by both structuralist and Marxist analysts of Latin American phenomena. The response from the orthodox perspective, however, has been reflected in a series of policies from the U.S. government that imply a fear of the Nicaraguan model. The strength of the apparent fear raises further the significance of the model.

The Economic War Against Nicaragua.

Economic aggression is not well defined in the professional lexicon. But there appears to be little alternative explanation for the series of steps that have been taken by the U.S. government and the U.S. private sector to undermine the economy of Nicaragua. Pedro Vuskovic has drawn from his experience as Economics Minister of Chile under Allende to describe the nature and intent of the economic aggression that, it is now known, was deliberately orchestrated by the U.S. government against Chile at that time. "Economic destabilization" is the goal that he sees pursued, but there exists a wide spectrum of means and levels of application. From economic measures to dissuade a government from a policy that it was considering to measures designed to delegitimize governments attempting new social programs by bringing about economic deterioration preceding elections, economic aggression, he suggests, has come to be accepted as a part of the standard policies of the U.S. government that is used in close coordination with other, more directly aggressive and often military policies <1981>.

Sholk has carefully and extensively documented a number of the dimensions that economic aggression has taken against Nicaragua <1983>. The first level relates to direct bilateral U.S. assistance. The Carter admin-

istration offered economic assistance to Nicaragua during the first two years of the reconstruction period after 1979. The Kissinger Commission has suggested that the U.S. provided \$117 million in aid to Nicaragua. That number is disputed by several sources, but if true it would constitute less than 15% of the total bilateral and multilateral assistance that Nicaragua received during the first three years after the revolution, the period during which some U.S. aid was received <OECD, 1982>. What is much clearer to most Latin Americans is the way in which the U.S. has used its financial and economic clout to attempt to injure Nicaragua.

The Reagan administration cancelled, soon after taking office, the last \$15 million in aid promised under Carter. It terminated \$10 million in PL-480 credits for purchases of U.S. wheat in March 1981; it cut off \$11.4 million in promised rural development, health, and education loans in April 1981 <Scholk, 1983, p.4>. The State Department put pressure on U.S. banks not to participate in a \$130 million credit line being organized in London in March 1982 and dissuaded the Bank of America from concluding negotiations on a \$30 million short-term loan that had already been syndicated in March 1983. And the administration cut off Nicaraguan eligibility for Export-Import Bank credit, discouraging U.S. firms from exporting to Nicaragua <p.6>.

Nicaragua was dependent on foreign bankers for 45% of the total debt of the entire national banking system in 1978; 80% of that was short-term debt rolled over year-by-year. Although Nicaragua has restructured the pre-revolutionary debt, as did Costa Rica, U.S.-based banks have reduced short-term lending to Nicaragua from 73% in 1978 to 10% in 1983 <Conroy, 1984>. They simply refuse to provide additional credit, even though they continue to roll over the bank debt of the other Central American countries whose economies are in much worse difficulty than the Nicaraguan.

The U.S. has attempted to undermine Nicaraguan commerce on other levels. In August 1982 the Department of Agriculture assigned Nicaragua the least favorable shipping schedule it had ever encountered for shipments of sugar to U.S. markets; this forced the Nicaraguan government to find storage facilities for nearly 50,000 tons of sugar and to postpone receipt

of payments for the sugar for an additional 6 months. Then, in May 1983, the U.S. cut Nicaragua's sugar quota by 90%, in direct violation of the stipulations of the General Agreement on Tariffs and Trade, an international treaty that affects all U.S. imports and exports <NYT, March 11, 1984>.

The U.S. has been exercising an open policy of blocking multilateral lending to Nicaragua. According to officials of FIR, the Nicaraguan International Reconstruction Fund, Nicaragua received an average of about \$12 million per month in new financing from the World Bank and the Inter-American Development Bank between July 1979 and November 1981, when Mr. Reagan was elected. From December 1981 through the end of 1982 the average fell to less than \$1 million per month; and now there is virtually no support from these two U.S.-dominated institutions. The change in policy occurred at precisely the time when the first World Bank mission report, mentioned above, noted that the Nicaraguan economy would require substantial new assistance from the Bank if it was to return to 1978 levels of income by the end of this decade. According to FIR, once again, the U.S. has succeeded in blocking, through July 1983, loans for more than \$230 million that had otherwise met all the requirements of the institutions <Sholk, 1983, p.15>. According to FIR officials, there have been no new loans or loan programs initiated with respect to Nicaragua by the World Bank since November 1981 even though there has been ^{no} diminution in the rate at which Nicaragua has presented proposals for such programs. OECD documents, available through 1982, illustrate the effective boycott of Nicaragua, especially by comparison with lending programs for the other Central American countries <Conroy, 1984>.

The direct intervention of the U.S. to achieve these results has been documented in several cases, but with greatest notoriety in the case of a January 1982 loan for \$16 million to finance storm drainage and improvements in low-income neighborhoods in Managua. The loan was supported by the U.S. executive director at the Bank, by the U.S. Treasury Department, and by the Latin American Bureau of the Department of State. But Secretary of State Alexander Haig ordered a "no" vote because, according to Morrell and Biddle, anything else would violate the U.S. political objectives

regarding Nicaragua <1983, p.10>. This was a highly unusual breach of the gentlemanly agreements reached over most loans in the bank, and the loan went through, one of the last loans for Nicaragua that had been "in the pipeline" prior to Mr. Reagan's election and one of the last approved.

Heavy-handed U.S. politicization of multi-lateral loans has also been criticized at the Inter-American Development Bank. The U.S. is being criticized amply, but privately, by the Latin American, Canadian and European members of the bank for using its disproportionate voting power at the IDB to block loans to Nicaragua and to force the bank to make an inordinately large set of loans to El Salvador <Washington Report on the Hemisphere, September 6, 1983>. The Wall Street Journal has also reported that a Congressional study had found that the Reagan administration had placed Nicaragua on a "hit list" of 5 nations that would be prevented from borrowing from the IDB or other supposedly multilateral institutions <Morrell and Biddle, 1983b, p. 6>.

The final dimension of this economic aggression must be related to the military aggression undertaken by the counter-revolutionary groups supported by the CIA in Honduras and Costa Rica. The administration has openly asserted that the supposed objective of these groups is not the overthrow of the government but rather the infliction of economic and military damage as "pressure." According to official Nicaraguan government estimates, the direct damages inflicted through the end of 1983 amounted to \$120 million. But the researchers at INIES in Managua have estimated that direct and indirect costs exceed \$300 million, more than half the average value of all Nicaraguan exports.

Summary and Conclusion.

What can we conclude about the relative applicability of the three alternative perspectives? It is clear, first, that the set of economic policies implemented in Nicaragua represent, in almost every case, policies not only consistent with a long tradition of Latin American non-Marxist structuralist interpretations but also policies that have been advocated, supported, and even financed at one time or another by previous U.S. administrations. To brand them Marxist-Leninist, as if that might somehow justify the economic and military aggression, is a disservice to scholarly

interpretations of all three perspectives.

The orthodox neo-classical developmentalist perspective, second, offers little insight into what was happening in Nicaragua prior to the revolution and little insight into why the revolution occurred, but it offers a strong perspective for understanding the economics of the counter-revolution, the organization of the economic aggression against Nicaragua, and the attitudes of the U.S.-dominated multilateral institutions. The Nicaraguan model is a threat to that perspective and to all those interests for which that perspective may provide a set of theoretical apologetics. If Nicaragua is capable of demonstrating that a fundamentally "mixed" economy, with significant continued private sector production amid clear state regulation oriented first and foremost to the fulfillment of basic needs of the poor majority, can sustain growth and redistribution toward that majority, that perspective will be exceedingly attractive to the impoverished majority of much of the rest of the world. And if it remains the policy of the governments that identify with the orthodox laissez faire perspective to attempt to prevent the implementation of reforms like the Nicaraguan reforms wherever they may appear, the impoverished majority of the Third World population will have further incentive to look at the Nicaraguan model of revolutionary insurrection to achieve those reforms.

The more radical, neo-colonial Marxist approach provides the best perspective for explaining how the revolution originated, and it gives the best perspective on the fundamental and underlying social and economic problems that had to be dealt with in a revolutionary manner. But immediate applications of dogmatic policies drawn from that perspective and based on the abstract theory of transition to socialism may be completely inappropriate for the concrete case of Nicaragua in the 1980's. It may serve Nicaragua well to place proposed policies in the historical context of previous experiences of transition to socialism, but it remains the burden of the critic to demonstrate that such previous experiences are historically relevant to the confluence of historical forces within which Nicaragua must function.

The hegemony in Latin America of structuralist approaches to economic

growth and development may be more seriously threatened, oddly enough, by the attempt by Nicaragua to implement them more fully and more systematically than ever before. The severity of the counter-revolutionary backlash may do more to discourage attempts at similar "mixed-economy" reforms in other countries than the marked failures of partial, half-hearted implementations of these approaches that have been seen in recent years. At the same time, the response of advocates of neo-classical developmentalist orthodoxy to the implementation of the non-Marxist reforms of the structuralists gives further credibility and legitimacy to Marxist interpretations and approaches far beyond those they might have acquired if the universal condemnation of Somoza and his regime had been followed by tolerance, acceptance, and support for less radical changes than a more purely Marxist perspective will call for, if Nicaragua is left no choice.

There is little question that the Nicaraguan revolution will survive. The nature of the economic system it will have, however, remains malleable. The economic system that will characterize Nicaragua five years from now is being melded in the crucible of open aggression. Every day of external economic and military tension lessens the likelihood that the existing private sector in Nicaragua will be left a major role in the economy of the future. It will be an important historical irony, and a major setback to the creation of new modes of economic organization, if the Nicaraguan experiment with a new form of mixed economy is forestalled by those who claim to support the private sector role that is so strongly a part of that experiment.

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