EXTERNAL DEPENDENCE, EXTERNAL ASSISTANCE, AND 'ECONOMIC AGGRESSION' AGAINST NICARAGUA

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ABSTRACT

The Sandinista Revolution in Nicaragua inherited an economy that was profoundly dependent upon constant new flows of external financing, not only in terms of economic aid from multilateral institutions heavily influenced by the U.S., but also through the more subtle influence of private bank financing. The economic policies toward Nicaragua undertaken by the U.S. government since 1981 demonstrate clear recognition of the damage that could be done through the manipulation of those channels. This paper presents a detailed analysis of the nature of Nicaraguan financial dependence prior to 1979, the problems that have ensued in the external sector, and the manipulation of financial flows as a direct object of U.S. policy. It places U.S. policies explicitly in the context of historical economic aggression, and it demonstrates the extent to which Nicaragua has responded to reductions in U.S. financing by turning successfully to Western Europe, to other Third World nations, and to the Socialist Bloc for new economic assistance as it strives to lessen and diversify its external assistance. Nicaragua's confrontation with this external financial dependence carries lessons in the functioning of the international financial system with respect to any nation that attempts to transform its domestic economy by restructuring its position in the global economic system.

RESUMEN

La revolución Sandinista en Nicaragua heredó una economía profundamente dependiente de financiamiento externo, no solo en términos de ayuda económica proveniente de instituciones multilaterales influenciadas en gran manera por los E.U., sino también por la influencia mas sutil de financiamiento a través de bancos privados. Las politicas económicas de los E.U. hacia Nicaragua desde el 1981 demuestran un claro reconocimiento del daño que puede ser causado mediante la manipulación de estos canales. Este trabajo presenta un análisis detallado sobre la dependencia financiera nicaraguense antes de 1979, los problemas que han resultado en el sector externo, y la manipulación financiera como objeto directo de la politica estadounidense. Situa las politicas de los E.U. explicitamente en el contexto de una historica agresión económica. Demuestra además, hasta que punto Nicaragua ha respondido a las reducciones financieras estadounidenses al recurrir con éxito a Europa occidental, a otras naciones del Tercer Mundo y a la Union Sovietica con sus aliados para nueva ayuda económica mientras procura disminuir y diversificar su ayuda externa. La confrontación con esta dependencia financiera externa conlleva lecciones sobre el funcionamiento del sistema internacional financiero con respecto a cualquier nación que intenta transformar su economía doméstica reconstruyendo su posición en el sistema económico global.

External Dependence, External Assistance, and 'Economic Aggression' Against Nicaragua [1]

The external dependence inherited by the Sandinista Revolution in Nicaragua encompassed four overlapping areas of the economy: 1) a primary product export sector, heavily focused on the U.S., that was the principal source of what little dynamism the economy showed in the pre-revolutionary era; 2) a habit of financing the government deficit through foreign borrowing; 3) a heavy reliance on foreign debt within the national banking system; and 4) a chronic imbalance in trade relations that required continual compensating capital flows and/or foreign borrowing. The financial condition of the nation in July 1979 left the Sandinista government with a large external debt and no foreign exchange cushion with which to confront external needs. The Sandinista government has been forced to rely on large quantities of foreign economic assistance, not only because of those dimensions of the inherited economy but also because the world-wide prices of Nicaragua's principal export products has fallen drastically since 1979.

The export sector has proven to be the Achilles' heel of the Nicaraguan economy since the 1979 revolution. It was the core of the pre-revolutionary model of export-led growth that the Economic Commission for Latin America (ECLA) characterized as the "superimposed development" presently underlying the social and economic crises throughout Central America.[2] And it has constituted the principal focus for accumulation of surplus in early planning efforts since the revolution.[3]

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1. This paper was written during the Spring of 1984 while the author was a Visiting Faculty Fellow at the Kellogg Institute of International Studies at Notre Dame University and a Visiting Associate Professor in the Notre Dame Department of Economics. Research on the paper was also supported by a Mellon Foundation Summer Research Grant from the Institute of Latin American Studies at the University of Texas at Austin. Assistance in obtaining data and useful commentary were received from Jennifer L. Conroy, E.V.K. FitzGerald, Alexander Wilde, Ernie Bartell, other members of the Kellogg Institute "Brown Bag" Discussion Group, and especially from Linda Hudgins and David Ruccio. The errors in presentation and interpretation are, however, the responsibility of the author alone.

2. Economic Commission for Latin America, "The Crisis in Central America: Its Origins, Scope, and Consequences," E/CEPAL/G.1261, 15 September 1983.

3. See E.V.K. FitzGerald, "The Economics of the Revolution," Chapter 11 in Thomas W. Walker, editor, Nicaragua in Revolution, (New York: Praeger, 1982), pp. 203-221, and George Irvin, "Nicaragua: Establishing the State as the Centre of Accumulation," Cambridge Journal of Economics, Vol. 7 (1983), pp. 125-139.

This complex external dependence has provided opponents of the Revolution their greatest element of economic leverage. Actions by the U.S. government to undermine export production in Nicaragua and export markets for Nicaraguan products, as well as the actions to deter private and public lending to Nicaragua, have been based upon a recognition, explicit in World Bank documents, that without significant foreign assistance and an improvement in export performance the goals of the Revolution and its very existence might be threatened.

Nicaragua has responded to the problems of the external sector by offering unparalleled production incentives to the largely private-sector producers who generate most of the exports. And it has sought substantial amounts of external assistance to bridge the foreign-exchange gaps that have arisen. Although this assistance was sought primarily and initially from the Western industrialized nations and from their multilateral agencies, there occurred after 1980 a dramatic reduction in assistance from the U.S. and the multilateral agencies over which the U.S. holds greatest influence. This has been offset in part by expansion of assistance from other Third World countries and also by an increase in economic assistance from the Socialist-bloc countries. The reductions in U.S. and U.S.-influenced multilateral assistance in 1981 contributed strongly to making 1982, in economic terms, the worst year to date for the Revolution. The decision by Nicaragua to turn then to the Socialist-bloc countries, and the commitments from them that have been received to date, provide Nicaragua with the unexpected benefit of greater diversification in its dependence on other countries than it has ever had.

This paper documents and discusses the nature and the extent of the external dependence which characterized pre-revolutionary Nicaragua, the acute susceptibility to external pressure that has been implied by that dependence, and the changing levels and origins of the foreign economic assistance upon which Nicaragua has had to rely since 1979. The paper depicts the external environment within which Nicaragua has attempted to make the transition to a less-dependent, more inwardly-oriented, and more stable economic system. The implications for that transition of a largely private-sector export industry are explored. The 'economic aggression' embodied in the anti-Sandinista economic policies of the U.S. government is analyzed in this context; and part of the effects are seen in dramatic changes in new data on U.S. bank lending to Nicaragua since 1979. Data are provided on the composition of net financial assistance received through 1982 from a majority of sources and on new financial commitments through 1983.

Nicaraguan experiences with the external sector crisis since 1979 provide, I will suggest, an excellent case study in the fragility of year-to-year economic progress in open, financially dependent, small peripheral economies. They also serve to illustrate the obstacles to fundamental structural change raised by inherited external dependence. The Nicaraguan experiences demonstrate, finally, the sensivity of economic development in such countries to the maintenance of "politically appropriate" development strategies, where the "acceptability" of such strategies is determined in the countries upon which one is dependent. The Nicaraguan experiences provide, in fact, a frightening example of the power of international capital over the development potential of the Third World nations and a lucid demonstration of the damage that can be wrought when those who control that power choose to exercise it.

Pre-Revolutionary External Dependence in Nicaragua.

The full extent of Nicaraguan external dependence prior to the revolution has never been demonstrated and documented thoroughly. In fact, standard overviews of the Nicaraguan economy prior to 1979 seldom raise the issue. (See, for example, the Inter-American Development Bank reports on Nicaragua for 1975 thru 1977.)[4] ECLA analyses at that time provide clearer perception of the growing disequilibrium;[5] and ECLA's more recent overview of the nature of the Central American crises provides insight into this problem, but without focusing explicitly on the dimensions of real (production-based) and financial dependence.[6]

Nicaraguan dependence can be seen first in the relative importance to the economy as a whole of its export products and in their vulnerability to fluctuations in production and market prices. The Nicaraguan economy in the 1960's and 1970's, ECLA noted, suffered from the same structural problems that afflict the other Central American economies to this date. Having linked their post-WWII growth to the expansion of markets for their traditional exports in the industrialized countries, they encountered rapidly growing import and export coefficients (proportions of national product) after 1960. The evolution of the external sector "determined the global economic behavior of the economy," and the restrictions found in that sector "marked the limit on the rate of

4. Inter-American Development Bank, Social and Economic Progress in Latin America, Separate issues for 1975, 1976 and 1977. (Washington, D.C.: IDB).

5. U.N. Economic Commission for Latin America, Economic Survey of Latin America: 1977, pp. 345-365.

6. U.N. Economic Commission for Latin America, Centroamerica: Evolucion de sus Economias en 1983 (Version Preliminar). Mexico City, April 1984.

domestic economic activity." There resulted "a direct relationship between the level of exports on the one hand and the rates of economic expansion, capital accumulation, investment, procurement of fiscal revenue, level of employment, and import capacity, on the other." [7]

On the financial side the growing external orientation was less obvious, but equally profound. The 1960's and 1970's were a period characterized by increasing availability of foreign financial assistance and direct investment flows to offset the ever-widening gap between foreign exchange earnings and demand for foreign exchange. "When weakening of external demand coincided with restrictions on the flow of external financing," ECLA noted, "the external sector had the effect of inhibiting economic growth and even bringing about a contraction in economic activity in real terms.[8] Increasing flows of repatriated profits and interest payments and the amortization of growing international private and public debt, furthermore, absorbed rapidly increasing shares of export earnings.

Nicaragua had a distinctly open economy prior to 1979, and it has remained relatively open after five years of post-revolutionary policy. Total exports of goods and services constituted an average of nearly 24% of total demand in the economy. Exports represented Nicaragua's principal source of foreign exchange. And they were, oddly enough, the source over which Nicaragua had the greatest control, albeit still very limited control. Foreign exchange needs vary from year to year depending not only on the levels of imports but also on the levels of outflow of profits and interest on private direct and portfolio investment, amortization of public and private debt, and the volatile demand for short-term capital movements. One can measure external imbalance in the economy by comparing the supply of foreign exchange from export earnings with the demand for foreign exchange generated by those four items.

When the external balance, as measured in this manner, proves to be negative, a country must find ways other than through exports to cover the exchange deficit. None of those ways, however, is free of international political pressure. The least political method of covering the deficit is to draw down foreign reserves (deposits of foreign currency, gold, etc.) from the country's holdings at home or abroad, to whatever extent they exist when needed. Private and public foreign borrowing offer another alternative, but the nation must then meet the explicit economic and implicit political criteria of

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7. U.N. ECLA, "The Crisis in Central America...," op. cit., pp. 5-6.
8. Ibid.

potential lenders. Foreign private long-term investment affords a further method for covering the foreign exchange gap. But the strictures which this last solution places upon domestic economic policy may be the most sensitive of all. For unless a nation offers a set of political and economic conditions that are "competitive" with all other potential destinations for that private investment, the investment is unlikely to be forthcoming. Long term dependence on such foreign investment to resolve short-term shortages of foreign exchange lead to the creation of very severe limitations on the ability of governments to implement social and economic policies that are not in the explicit interest of the investors. A government's interests in improving social legislation, mandating occupational, health, and environmental conditions, and in raising the incomes earned by wage and salary workers are often diametrically opposed to the interests of investors who simply wish to obtain labor or access to markets at the lowest possible costs. In this sense, the problem of covering foreign exchange shortages represents the cutting edge of external dependence.

Table 1 presents a perspective on external balance and external dependence in Nicaragua that illustrates the problem. The perspective embodied in Table 1 differs from a traditional "balance of payments" (BOP) statement; for the BOP approach represents an accounting statement in which balance is required by definition. To demonstrate "imbalance," when it exists, one must reorganize elements of the BOP statement on the basis of explicit evaluative criteria.[9]

During the four years years prior to the Nicaraguan revolution, imports exceeded exports by large margins. Foreign exchange demand for repatriation of profits and interest exceeded an average of $70 million each year (more than 10% of total exports, on average). Total public debt service added an additional $75 million per year (12.5% of average export earnings). And short-term capital movements changed from small flows into the country to massive hemorrhaging from the country between 1975 and 1978. The result in theory as well as on Table 1, is that Nicaragua was not only dependent upon export markets for 25% of its national income prior to the revolution; it also suffered

9. This interpretation of the BOP statement would be erroneous in a minor way if the levels of imports in a given year were directly related to the import-content of direct investment. That is, one should not consider imports required by an investment project and directly financed by that investment as fully comparable indicators of "imbalance." For Nicaragua, however, investment-related imports were very low; the total quantity of net direct investment for the four years shown on Table 1 was $41 million, an average of only $10 million per year. (See, U.N. ECLA, Economic Survey of Latin America: 1980, p. 404.)

from a chronic need for additional external financial assistance of more than $350 million, on average, each year. During 1977 and 1978 this external financial imbalance averaged more than $450 million each year.

Nicaraguan external dependence, however, was not limited to this imbalance reflected in balance of payments data; for the BOP data do not reveal whether the imbalance was the product of temporary and readily remediable events or policies (such as import increases related to sudden expansion of export industry investment) or whether they reflect deeper, chronic problems. In Nicaragua both the banking system and the central goverment itself had become heavily dependent upon continued high levels of short-term foreign borrowing. Table 2 presents details on the level and nature of bank system indebtedness. Although the Nicaraguan banking system as a whole had levels of resources and levels of debt no larger than those of a single bank of medium size in the industrialized world, that banking system was heavily dependent upon foreign debt and, especially, upon short-term foreign debt.

The foreign debt of the Nicaraguan banking system averaged more than $140 million from 1976 to 1978. And the level of the debt doubled between 1976 and 1978. This debt constituted an average of 57% of all banking system debt in the country. Although in 1976 less than a quarter of the total debt was short-term foreign debt (loans with a maturity of 1 year or less), by 1978 short-term foreign debt constituted 46% of total bank debt. Even more significantly, the short-term portion of bank debt to foreigners increased from 43% to 80% between 1976 and 1978.

What this meant for Nicaragua was quite simple. Nicaraguan bankers were required to renegotiate continually nearly 40% of the total outstanding bank debt of the country, either "rolling over" that much debt in foreign banks on a continuous basis or facing the possibility of a tumultuous multiplied contraction of the nation's financial system. Foreign bankers could refuse to roll the debt over if any untoward events occurred in the country that might raise their concerns, or if there were any changes in government policies that would displease them. Nicaraguan borrowing, although large in the context of the small Nicaraguan economy, represented miniscule proportions of the global credit market; so there was little or no incentive for foreign banks to be reticent about lessening their lending exposure in Nicaragua at any given moment. Nicaraguan debt to all major U.S. banks in 1978, for example, constituted only one quarter of one

Table 1.

Basic Indicators of External Dependence
in Pre-Revolutionary Nicaragua: 1976-78

	1975	1976	1977	1978
1. Total Exports of Goods and Services (Mil. U.S. $):	448	630	733	732
(% of Total Demand):	26.4%	23.6%	18.0%	26.7%
2. Total Imports of Goods and Services (Mil. U.S. $):	720	678	926	766
(% of Total Supply):	24.6%	22.6%	26.7%	28.6%
3. Net outflow of profits and interest (Mil. U.S. $):	54	67	76	76
(% of export earnings):	12.1%	10.6%	10.4%	10.4%
4. Total Debt Service (Millions of U.S. $):	50.4	76.2	101.9	99.2
(% of export earnings):	11.3%	12.1%	13.9%	13.6%
5. Capital Flight: Private Short-Term Capital Movements (Millions of U.S. $):	29.9	5.0	-79.5	-226.7
6. External Balance: Total Exports less Total Foreign Exchange Requirements (Mil. U.S. $):	-346.5	-186.2	-450.4	-435.9

SOURCES: Items 1, 2, and 4: World Bank, World Debt Tables, 1982-83 Edition, p. 195.
Item 3: U.N. Economic Commission for Latin America, Economic Survey of Latin America, 19 78; p. 391.
Item 5: IDB, Social and Economic Progress in Latin America, 1982 Edition, p. 383.

Table 2

External Dependence of the Nicaraguan Banking System: 1976-78

	1976	1977	1978
Total Bank System Debt (Millions of U.S. Dollars):	$175.1	$229.7	$328.8
Total Foreign Bank Debt (Millions of U.S. Dollars):	$94.1	$141.1	$188.4
Foreign Bank Debt as % of Tot:	53.98	61.40	57.32
Short Term Foreign ($mil.):	$41.1	$94.6	$151.2
Short Term Foreign as % of Total Bank Debt:	23.41	41.64	45.97
Short Term Foreign as % of Total Foreign:	43.37	67.81	80.21

SOURCE: Basic Data from the Banco Central de Nicaragua, "Informe Anual, 1978," p.18; conversions to U.S. dollars at 7.026 Cordobas per dollar, as taken from the IMF "International Financial Statistics, April 1984, p.278.

Table 3.

External Financing of Government Deficits: Nicaragua, 1975-78

	1975	1976	1977	1978
Total Govt. Expenditures (Mil. U.S. Dollars)	300	313	438	439
Government Deficit (Mil. U.S. Dollars)	-111	-95	-189	-225
Def. as % of Expend.	37.2%	30.5%	43.2%	51.3%
Externally Financed:	104	88	180	86
Foreign Financed as % of Deficit:	93.7%	92.4%	95.2%	38.3%

SOURCE: U.N. Economic Commission for Latin America, "Estudio Economico de America Latina, 1982: Nicaragua," E/CEPAL/1.286/add.4, p.395; conversions to U.S. dollars at 7.026 Cordobas per dollar, as taken from the IMF, International Financial Statistics, April 1984, p.278.

percent (0.262%) of total U.S. bank lending abroad at the close of that year.[10]

Prior to 1979 the Somoza government also tended to rely upon foreign borrowing to finance its government programs. Table 3 indicates the relationship between total government expenditure, the government's budget deficit, and foreign financing of the deficit. From 1975 to 1977 the government deficit averaged 38% of total expenditures, and an average of 94% of that deficit was financed with foreign borrowing. The fragility of this form of solution was seen in 1978 when the government was only able to finance 38% of the deficit through foreign borrowers. The scarcity of credit that year is reflected in the capital flight noted in Table 1: more than $225 million.[11]

The combined effects of these overlapping dimensions of external structural and financial dependence were rooted deeply in the Nicaraguan economy inherited by the Sandinista government in 1979. Patterns of production in the nation's best agricultural land, the training that was embodied in large portions of the labor force, the nature of the capital equipment available at that time were all a product of the evolution of the external sector in the preceding years. The financial imbalance produced by that system of production represented a form of long-term economic mismanagement, but it was not an imbalance that could be removed by _fiat_. Under the very best of circumstances, it would have taken the new government many years to restructure and reorganize the economy to eliminate imbalances of that magnitude. Under the best of circumstances, the new government was going to need to depend heavily upon the export sector and on significant quantities of external assistance to avoid precipitous decline in the standard of living.

The chronic imbalance in the Nicaraguan economy depicted in Tables 1, 2, and 3 was exacerbated by the actions of the Somoza regime as it abandoned the country in 1979. Capital flight during the final months of the insurrection exceeded $500 million according to the first World Bank mission that visited Nicaragua after the Sandinista government took power.[12] The banking system had been "completely decapitalized"; it was left virtually insolvent because many transactions during the last months of the conflict were,

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10. See Federal Financial Institutions Examination Council, Statistical Release: "Country Exposure Lending Survey," June 1979.

11. The negative signs on the capital flight levels indicate that there was net movement _out_ of the country; inflows of funds are subtracted from line 6 of Table 1 and outflows are added to it.

12. World Bank, _Nicaragua: The Challenge of Reconstruction_, Report No. 3524-NI (October 9, 1981), p.2.

according to ECLA analysts, "of doubtful legality or completely illegal."[13] But the foreign private debt of the banking system was still due. Both the World Bank and ECLA noted that the foreign public debt inherited from the Somoza regime, approximately $1.6 billion, was a particularly acute problem. For there had been extensive short-term borrowing during the last two years of the Somoza era to finance arms purchases, to counteract capital flight, and to finance the government deficit, as noted above.

The crucial and immediate need for external financial assistance in 1979 was emphasized by both organizations. The very viability of the financial and monetary system and, as a result, the possibilities for economic stabilization in general depended upon obtaining ample new foreign resources to rehabilitate the nation's productive capacity. If Nicaragua were not to receive this immediate infusion of new foreign assistance, according to the ECLA economists writing in August 1979, "the country will face a cruel dilemma: a monetary disequilibrium and the unleashing of further inflation or an even greater contraction of economic activity under conditions when an elevated proportion of the population is now unemployed."[14]

Reactivation of the economy became the highest priority of the Sandinista economic policy during the last half of 1979 and through 1980. Production had virtually ceased throughout the country during the months of June and July, key planting months. Real gross domestic product fell by 25% in 1979; exports decreased by 12% in 1979 and, reflecting the consequences of disruption during the Fall planting period, they fell by a further 20% in 1980. This export-dependent, nearly bankrupt economy began the transition to a "new economic and social system" from a profoundly disadvantageous starting point.

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13. U.N. ECLA, Nicaragua: Repercusiones Economicas de los Acontecimientos Politicos Recientes, E/CEPAL/G.1091 (Agosto de 1979), p.24.

14. Ibid.

The External Sector in Sandinista Nicaragua.

Nicaragua has not had a large number of clear role-models to emulate in the organization of its new economic system. Although all of the attempts since 1950 to construct a socialist system have occurred in small, open economies that were significant exporters of primary products, like Nicaragua, the experiences of other nations have had historical specificity that limits the transferability of their experiences. The body of theoretical literature potentially relevant to the design of a new social and economic order in Nicaragua is extremely limited, whether one searches among the histories of nations that have made a recognized transition to more-socialist forms of organization or in the Marxist theories of transition to socialism. Those analyses that do direct themselves to the problems of transition in Nicaragua, however, are virtually unanimous in their interpretation of the crucial role of the export sector.[15]

Primary product exports in Nicaragua are the "heavy industry" of the country, according to FitzGerald. They are the relatively capital-intensive earners of foreign exchange. They are the vehicle for the insertion of the economy in the world market system; and they are, ultimately, "a (or perhaps the) crucial determinant of the model of growth and distribution."[16]

The export sector is also the most likely source of surplus within the society, whether viewed as surplus generated from the profits on the large amount of capital dedicated to that sector or as surplus appropriated from international "rents," income accruing to Nicaragua because the costs of agricultural production there are significantly lower, even after improvements in the total wage package for farmworkers, than those of other producers in the world market. Given the Nicaraguan goals of increasing substantially the availability of locally-produced wage goods (basic food stuffs, transportation, and housing) and the concrete programs to sustain and improve the standard of living of the peasantry and urban and rural wage workers by subsidizing the prices paid for basic commodities, there will be little opportunity to accumulate surplus in that sector. The heavy damage done to industrial production during the last phase of the insurrection and the heavy import requirements of rebuilding and then serving those

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15. In addition to the articles by FitzGerald and by Irvin, op.cit., see E.V.K. FitzGerald, "Planned Accumulation and Income Distribution in the Small Peripheral Economy," forthcoming in K. Martin, ed., Readings in Capitalist and Non-Capitalist Development (London: Allen and Unwin, 1983).

16. Ibid., p. 1.

industries make them equally unlikely candidates for generating a surplus with which to cover the costs of subsidies in other areas and for new investment projects.

The production of exports is one portion of the Nicaraguan economy that is furthest from government control. Most estimates suggest that the proportion of production controlled directly by the public sector amounts to 40% of Nicaraguan gross domestic product. But the the Nicaraguan public sector controls only 25% of the production of the traditional agricultural export sector. Although the distribution of exports across specific products fluctuates from year to year, 1981 data are representative. In 1981 five primary agricultural products accounted for 72% of all Nicaraguan exports: coffee (27%), cotton (25%), sugar (10%), beef (6%), and bananas (4%).[17] Large-scale private producers account for 59% of all export production; the remaining 16% is produced by small-scale traditional farmers.[18]

The private control of export production forces the Sandinista government to face the stiffest test of its resolve to maintain private production in the majority of the economy. The conflict is theoretical as well as practical. The urgent need to expand export production, "an absolute priority" according to Irvin,[19] has led the government to introduce preferential treatment for those producers, including special access to foreign exchange, reductions in the original highly-progressive export taxes, and reduced interest rates.[20] These export-oriented policies have been labeled by some as creating a class of "privileged" producers.[21]

The special treatment, however, reflects the need to create incentives for that particular group of producers that compensate for the effects upon them of other government policies. Given that one fundamental goal of the Nicaraguan model is to use a broad range of economic policies to redistribute income toward the working class and the peasantry, these redistributive policies may conflict with the need for export expansion unless they are somewhat offset by special treatment. Irvin has noted, for example, that "the danger is that with the bulk of export production still in private hands, further

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17. U.N. ECLA, Estudio Economico de America Latina: 1982, Nicaragua, E/CEPAL/L.286/Add. 4, p.15.

18. George Irvin, op. cit., p.128.

19. Ibid., p.136.

20. Rose J. Spalding, "State Economic Expansion in Revolutionary Nicaragua," A paper presented at the 25th Anniversary Meeting of the International Studies Association, Atlanta, March 29, 1984 (typescript).

21. Forrest D. Colburn and Silvio DeFranco, "Privilege, Production, and Revolution: The Case of Nicaragua," A paper presented at the 25th Anniversary Meeting of the International Studies Association; Atlanta, March 29, 1984 (typescript).

redistribution (via higher taxation, a fixed exchange rate, and the disappearance of imported consumer goods) may lead to export stagnation."[22]

The terms of trade for Nicaraguan exports have deteriorated by 27% from 1979 to 1983, but for world market reasons independent of the policies introduced in the nation. The value of Nicaraguan exports has fallen by nearly 23% since 1979, but it has not been because of shortfalls in the production of agricultural exports. The physical volume of production has grown, in fact, by 11.2% since 1979. The decline in export earnings in Nicaragua is only slightly higher than the 18% decline in average exports for Central America as a whole. And the growth in export production in Nicaragua compares very favorably with the decline across Central America of an average of 19% over the same period.[23] The decline in export earnings in Nicaragua are a clear and direct function of the decline in prices for its export commodities. The decline in export prices and concomitant increase in the cost of imports, for example, is only slightly more than the average decline of 24% encountered over the same period by the five Central American countries as a whole.[24]

Economic policies undertaken by the U.S. government to undermine the Nicaraguan economy, discussed in greater detail below, have further worsened Nicaraguan export earnings by forcing the government to develop new markets through price concessions. Expectations for the 1983-84 harvest year are pessimistic, for the severity of the military attacks on coffee growing areas by the CIA-organized "contras" has inhibited harvesting, and the increased overflights by "contra" aircraft have forced limitations on aerial spraying in cotton-growing areas. But these are only a small part of the overall attempt by the U.S. government to exploit Nicaragua's inherited dependency by "making its economy scream."[25]

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22. George Irvin, op. cit., p.138.

23. Michael E. Conroy, "False Polarization? Differing Perspectives on the Economic Strategies of Post-Revolutionary Nicaragua," A paper presented at the 25th Anniversary Meeting of the International Studies Association, Atlanta, March 29, 1984, Table 3; forthcoming in Third World Quarterly, October 1984.

24. U.N. ECLA, "Preliminary Overview of the Latin American Economy During 1983," E/CEPAL/G.1279, 29 December 1983, p.33.

25. The reference, of course, is to the terms used by President Richard Nixon in 1970 when he directed the CIA director, then Richard Helms, to orchestrate U.S. economic policies against the elected government of Salvador Allende in Chile.

U.S. Economic Policies as 'Economic Aggression'.

'Economic aggression' is not a term found in the glossaries of most U.S. economics texts. It is not a theoretical concept that has been defined well, analyzed, characterized, or typified. There is a rather strong tendency among Northamerican academic economists to dismiss the term as the reflection of concepts or approaches that are in the realm of political science, but certainly not part of the domain to which traditional analytical tools of economists may be applied legitimately. This rather ingenuous approach reflects, I believe, both an act of faith in the nature of market economies and a deeply-held moral belief that the U.S. government does not engage in such practices. In the case of Nicaragua, however, that naivete may have met its overdue end.

One of the best analytical treatments of the notion of economic aggression has been provided by Pedro Vuskovic in a little known essay first published by Le Monde Diplomatique.[26] Vuskovic was himself a victim of the U.S. destabilization policies against Chile while he served as Minister of the Economy under Allende. He wrote the essay in early 1981 at a time when the Reagan administration had begun to announce its opposition to aid to Nicaragua but when the magnitude and full characteristics of the anti-Sandinista economic policies had not been made apparent. His analyses were prescient. He discussed the nature and the objectives of U.S. programs of "economic destabilization" with reference to a relatively wide variety of nations and national experiences, not just the case of Chile. Economic aggression, he noted, has ranged from simple warnings and notices that policies might be enacted to the open implementation of deliberate policies designed to to have a direct effect on particularly vulnerable areas of an economy. The objectives have ranged from "dissuading" a government from a planned or proposed policy to the "delegitimizing" of whole governments by using less-visible, more "normal" tools (especially under conditions where elections are about to occur) by creating tangible worsening in the social and economic conditions of that country. He cites not only the overt attempts to depose Fidel Castro through the economic embargo, but also U.S. economic policy toward the Goulart government of Brazil just prior to its overthrow in 1964, the measures taken by the Nixon government to limit and restrain economic policies of the Velasquez government in Peru, the pressures that led to the overthrow of the Torres government in Bolivia in 1971, the deliberate destabilization attempts made against Allende in Chile, the policy changes that hurt the Peronist government of Argentina from

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26. Reproduced in El Nuevo Diario on June 4, 1981.

1973 to 1976, and comparable but lesser destabilization efforts directed at General Torrijos of Panama, Prime Minister Manley of Jamaica, and the Echeverria regime in Mexico.

All of these experiences share a set of common characteristics, Vuskovic noted, that are useful for understanding the coherence behind the policies that were then beginning to be enacted against Nicaragua:

1. The economic aggression is articulated through policies that link the interests of international institutions, such as the IMF, with the economic interests of local elites, who attempt to claim representation of broader social groups, such as small businesspersons or the salaried professional class.

2. The destabilization programs are developed gradually and at first discretely, beginning with actions that may create an adequate response, and then escalating the nature and the public defense of the policies with deliberately misleading demagoguery to justify increasingly open economic aggression.

3. The initial phases are accompanied by a campaign of delegitimization, claims of "inefficiency," charges that the government is violating nationalist commitments, and demands for change that are as great as possible (effectively eliminating any possibility that they will be met), while linking the opposition to "private enterprise."

4. At intermediate stages, repeated in most of the cases cited above, conditions are created which encourage destructive behavior on the part of businesspeople in the country, based on campaigns of fear about the future: liquidation of assets, capital flight, reduction of inventories, postponement of maintenance, and the gradual increase in shortages created simply by a hoarding mentality. As the inflationary pressures are brought to bear and domestic production suffers from the climate of fear and uncertainty, international finance is increasingly blocked or delayed, and demands for protection of private enterprise are escalated.

5. In its most ferocious stages, the coordinated policies become open, public, international economic aggression: sources of international finance are deliberately blocked; concerted efforts are made to deny access to international markets for essential products; and the conditions are created so that the entrepreneurial class in the country refrains from rational economic activity, producing as little as possible, hoarding, and, in general, disrupting normal production and commerce.

If we define 'economic aggression' conservatively as "the introduction of political and economic policies that are designed to disrupt or injure the economy of another country, including the deliberate withdrawal of economic assistance with an intent to injure," there is little doubt that U.S. policies toward Nicaragua have constituted blatant

aggression. The list of the specific elements of those policies is too long to reproduce completely at this point, but they have been outlined extensively elsewhere.[27]

The U.S. began its economic pressure immediately after Ronald Reagan was inaugurated. Disbursement of the last $15 million in committed economic assistance was halted, and a much-needed shipment of wheat was stopped. By late 1981 the U.S. was publicly organizing in the Inter-American Development Bank to block one loan after another, especially in the Fund for Special Operations, the concessional loan facility over which the U.S. has unusually great influence.[28] An October 1980 World Bank mission, named by out-going World Bank president Robert McNamara, provided a fundamentally supportive analysis of the Nicaraguan situation and the need for substantial and immediate assistance. This report, completed in February 1981 and circulated for 8 months before being published in October of that year, unintentionally provided, it now seems, the blueprint for the Reagan administration's aggression against Nicaragua.[29]

The Bank's October 1980 mission reported that the damaging economic consequences of the insurrection were real and persistent. "Per capita income levels of 1977 will not be attained, in the best of circumstances," it noted, " until the late 1980's." It envisaged high probabilities of debt-servicing and financing problems, but it noted that "if Nicaragua can obtain substantial financing in the near term, a considerable improvement in its creditworthiness three to four years hence <could> be foreseen..."[30] And the report urged that "it would be highly desireable for the country to receive external assistance at concessional terms and in excess of the foreign exchange component." The consequences of withholding financial support were also clear:

> ...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..[31]

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27. See Richard Sholk, "U.S. Economic Aggression Against Nicaragua," Paper presented jointly with Sylvia Maxfield at the XI International Congress of the Latin American Studies Association, Mexico City (October 1, 1983); Jim Morrell and William Jesse Biddle, "Central America: The Financial War," International Policy Report (March 1983), pp.7-11; and John Cavanaugh and Joy Hackel, "U.S. Economic War Against Nicaragua," Counterspy (March-May 1984), pp.12-17.
28. Sholk, op.cit., p.9
29. World Bank, Nicaragua: The Challenge of Reconstruction..., op.cit.
30. Ibid., p.57.
31. Ibid.

Shortly after that World Bank team returned from Nicaragua, Robert McNamara retired and was replaced by William Claussen, previously president of the Bank of America. Ronald Reagan was inaugurated, the presidential transition team expressed much concern about World Bank lending to socialist countries, a new team was sent to Nicaragua, and a radically different report was written on Nicaragua. The report was labelled "confidential" and was intended for use within the Bank alone.[32]

This new report admitted that the Bank had taken on the role of negotiating for the private sector in Nicaragua, insisting on new "clear and consistent rules of the game for the private sector," acceptable to the Bank, as a precondition for any further bank lending. The new report found Nicaragua only "marginally creditworthy," blamed primarily on problems in the growth rate of export earnings, and leaving Nicaragua with foreign exchange shortages as the "overwhelming medium-term problem." It then argued against funding most of the projects that the Nicaraguan government had requested.[33] Noting that Nicaragua "is likely to be a very controversial client,"[34] the new report recommended ending all lending for water supply projects, road building, or education programs and offering only limited financial assistance for agricultural credit programs "directed to the private sector." The report then called for slowing the processing of the request for even those funds, awaiting the Sandinista Government's responses to its demands with respect to the private sector.[35]

The International Development Association (IDA) is the "soft-loan" or concessional branch of the World Bank; it was founded and functions similarly to the Fund for Special Operations of the IDB. The U.S. has made considerable donations to this fund, and it exercises effective veto control. The application of that veto has never been publicly announced, although Nicaragua has not received any funds from the IDA since 1980. The February 1982 Bank report also includes a tacit admission that the U.S. had, by that date, blocked all loans and grants to Nicaragua from IDA.[36]

The U.S. has attempted to undercut Nicaragua's export earnings in more direct ways as well. It unilaterally reduced Nicaragua's quota of sugar for U.S. markets by 90%, an act designed to cost Nicaragua more than $23 million in differential sugar prices. The

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32. World Bank, "Country Program Paper: Nicaragua," (February 16, 1982).
33. Ibid., p.12.
34. Ibid., p.17.
35. Ibid., p.16.
36. While discussing loans for educational projects, frequently covered by IDA, the report notes on page 14 that "no IDA resources can be allocated to Nicaragua." There is no basis other than a U.S. veto for denying access of any country to IDA funds.

U.S. was a founding member of GATT (the General Agreement on Tariffs and Trade), which is the international organization charged with policing fairness in trading relations. In recent years the U.S. has depended heavily on GATT to condemn "unfair" dumping and subsidizing of Japanese and Third World products being sent to U.S. markets. The Nicaraguans complained to GATT that the arbitrary reduction of the sugar quota constituted an "unfair practice"; GATT has ruled that it was, indeed, a violation of binding agreements; but the U.S. has decided to ignore this decision.[37]

The U.S government has used a plethora of harassment techniques to slow, delay, or deter Nicaraguan trade with the U.S. They range from restrictions on exports of chemical feedstocks to Nicaragua because of their alleged use in products traded with Cuba, inconsistently scrupulous and exaggerated agricultural inspections, the closing of the Nicaraguan consulates to lessen the ability of U.S. producers to meet Nicaraguan import technicalities, and pressure on U.S. firms to avoid dealings with Nicaragua. [38] The mining of all Nicaraguan harbors and undeveloped "anchorages" in January and February 1984, represented the most direct form used by the U.S. to inhibit all trade with Nicaragua. The consequences have been far greater than the much-heralded damage to some vessels. During the first two months after the mining, shippers with contracts to deliver goods to Nicaragua offloaded much of them in Costa Rica and shipped them overland to Nicaragua, often with delays of many weeks. Several shipping lines declined future shipments until it could be demonstrated that the mines had been cleared; shipping insurance costs were increased; and the already precarious foreign supply of goods was further disrupted. [39] Although the U.S. government agreed to cease the placement of new mines in March 1984, the mines were not removed. They continued exploding through the Summer of 1984.

The most important deterrent to Nicaraguan trade, however, has been the collapse of private credit links for both imports and exports. These are simple "transactions credits"[40] rather than the borrowing more commonly recorded under public borrowing, and there is no international system for recording them or evaluating their magnitude. The pervasiveness of international credit in the financing of even the simplest transactions between the U.S. and many Third World nations represents a form of "hidden

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37. The New York Times (April 16, 1984).
38. Interviews in the Ministry of Foreign Trade, August 1982; see also Sholk, op.cit., pp.13-15.
39. Interviews in the Ministry of Planning, May 1984.
40. I am indebted to Linda Hudgins for suggesting this apt distinction.

dependency" that has cost Nicaragua dearly. Much of this dependence is never manifested in international statistics, for it is based on links to the actual importing or exporting firms.

It is often the U.S. firm, for example, that arranges for the credit needed to consummate an international transaction with Third World importers and exporters. The U.S. firm uses its domestic lines of credit with U.S. banks to finance shipments or receipts of goods, rather than requiring that the Third World party to the transaction obtain a loan that produces a recorded international transaction. Prior to the Revolution, for example, a Nicaraguan importer of fertilizer could often obtain 6-month credit terms directly from the manufacturer; the manufacturer would obtain the financing in its name from a local bank. The distributor then extends comparable credit to the farmer until the crop is harvested. Once the crop is in, the distributor is paid by the farmer, the manufacturer by the distributor, and the bank in the U.S. is repaid. A similar process was often used for Nicaraguan exports: U.S. importers would obtain loans from U.S. banks to provide advances to Nicaraguan producers; the advance would be deducted from payment due for the crop itself, and the bank would be repaid without a recorded international credit transaction.[41] There isn't necessarily any fear of the recorded credit transaction; the point is, however, that international statistics understate the extent of this "hidden dependence."

When the Ministry of Foreign Trade was organized in 1979 to control all imports and exports (specifically to avoid the capital flight that occurs surreptitiously through "over-invoicing" procedures), the first great problem that it encountered was the complete breakdown of that suppliers' credit system. There is no way to know precisely how much of Nicaragua's imports and exports prior to the revolution were financed with this kind of short-term credit. The Ministry has estimated, conservatively, that if 50% received such financing, the loss in credit amounted to more than $500 million. For a nation to lose all such credit almost instantaneously is devastating; it forces the nation onto a totally cash basis, causing dramatic contractions in spending until the needed cash can be accumulated.

In theory, Nicaragua should have then been able to turn directly to the banking community for loans to replace the suppliers' credits and importers' credits that have been lost. Whereas credit had previously been extended to myriad small businesses in

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41. There is, of course, a Current Account transaction in the BOP. But there is no indication that it was, in fact, dependent upon international credit.

Nicaragua on a strictly private basis, the state was now willing to offer formal state guarantees for short-term import and export credits. Nicaragua should have been viewed as an especially good credit risk for most banks, for the new government had taken the unusual step of officially accepting responsibility for the $1.6 billion Somoza-era debts and had succeeded in restructuring and refinancing the vast majority of its debts.[42]

The restructuring was precedent-setting; for Nicaragua was given until 1986 to resume principal payments, and the interest payments on most loans were lowered to 7% for that period with the difference between that rate and the actual rate on the loan capitalized into the principal. In fact, the World Bank reported that Nicaragua had brought itself up to date on all international debt payments by early 1980; and Nicaragua has been viewed in the Northamerican press as "one of the few countries in Latin America that continues to pay its debts on time."[43]

The pattern of economic aggression, however, has extended concretely to State Department efforts to discourage bank lending to Nicaragua. The activities appear to have been very widespread, and they are epitomized by the history of a loan that was organized by the Bank of America and announced in December 1982. The loan amounted to approximately $30 million for 90 days, and it was guaranteed by an effective mortgage on a share of the nation's cotton crop. It would have been "the first significant bank loan to Nicaragua since 1979."[44] The loan was sought to meet interest payments due on foreign debt, but the Nicaraguans committed themselves to making those payments whether or not the loan was finalized. The loan was stopped. Later reports have indicated that the State Department took an active role in discouraging the loan, calling Bank of America loan officers and threatening to call members of the bank's board of directors. The official State Department response was that it had not formally blocked the loan, but that it had made certain that the bank's officers knew what the administration's feelings were

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42. The decision to accept responsibility for Somoza's debt remains controversial in Nicaragua. The decision was made deliberately to maintain contacts with the international financial community upon which Sandinista leaders knew Nicaragua would have to depend for many years into the future. As the costs of that commitment have come due under conditions of considerable financial isolation, the wisdom of the initial decision continues to be questioned.

43. For references to the debt restructuring, see IMF, Recent Multilateral Debt Restructurings with Official and Bank Creditors, Occasional Paper 25 (December 1983); the World Bank reference is in its February 1982 "Country Program Paper," op. cit.; for the final quote, see The Washington Post (December 18, 1982)

44. The New York Times, (December 14, 1982).

about such loans.[45]

The cumulative effect of this interference may be seen in Tables 4 and 5 and in Figures A and B. They provide information on U.S. bank lending to all of the Central American countries from 1977 to 1983. They are derived from a semi-annual survey on U.S. bank debt abroad undertaken by the U.S. Federal Reserve Bank.[46]

The data in Table 4 and Figure A indicate that large U.S. banks have been major contributors to the economic crises of the Central American nations in recent years. The U.S. banks have decreased their outstanding loans in Central America by more than 34% since the peak year of 1978. Total indebtedness to U.S. banks fell from $1.9 billion at that time to $1.2 billion in December 1983. Nicaragua had been the nation most indebted to U.S. banks prior to 1979; U.S. banks had lent nearly a third of all Central American loans to Nicaraguans during the Somoza years. By December 1980 Costa Rica's financial crisis had led that country to borrow massively, reaching a total indebtedness to U.S. banks of $643 million, 35% of the regional total.

One can also see in those data that Nicaragua's financial support from U.S. banks has fallen from a peak of $571 million in December 1978 to $322 million in December 1983, a decline of 44%. Given the attitude and policies of the U.S. government, there is ample reason to believe that the decline would have been much greater had Nicaragua not succeeded in renegotiating and restructuring most of its debt. No other Central American nation has succeeded in obtaining such a complete restructuring by the international bankers; yet no other Central American nation has suffered such an acute withdrawal of new bank finance.

Under normal circumstances the process of restructuring existing debt is undertaken so that a nation is once again considered "creditworthy" for additional short-term and medium-term borrowing. Table 5 and Figure B indicate, however, that Nicaragua has encountered an almost total withdrawal of short-term financing, precisely the form of financing on which the Somoza government had become so totally dependent. In December 1978 73.3% of all the bank debt owed by Nicaraguans to U.S. banks was short-term debt, debt that had to be renegotiated or repaid in 1 year or less. That short-term

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45. The New York Times (February 21, 1984).
46. The data cover all banks with $1 billion or more in foreign lending, and the number of banks reporting has increased from 124 in 1977 to 209 in 1983. That increase in the number banks reporting means that increases in lending from one reporting period to another may be spurious, but that decreases in lending are probably understated.

Table 4.

Total Amount Owed to U.S. Banks (Millions of U.S. $)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	C.A. Region	% of US Tot.
Dec. '77	424.7	186.2	226.4	253.3	562.5	1653.1	0.85
June '78	467.9	212.4	211.7	301.1	535.9	1729.0	0.87
Dec. '78	432.8	316.7	241.5	312.5	571.7	1875.2	0.86
June '79	460.9	236.0	244.1	275.8	458.2	1675.0	0.76
Dec. '79	567.2	198.4	336.9	291.8	410.0	1804.3	0.73
June '80	618.7	117.2	359.4	268.0	397.3	1760.6	0.66
Dec. '80	643.6	105.2	321.2	301.1	449.8	1820.9	0.64
June '81	592.7	101.3	241.2	274.9	423.7	1633.8	0.52
Dec. '81	558.2	111.9	235.3	286.3	423.3	1615.0	0.49
June '82	513.0	93.2	169.4	265.3	426.1	1467.0	0.42
Dec. '82	497.7	94.5	179.2	191.6	403.8	1366.8	0.39
June '83	478.5	103.1	179.6	156.5	371.2	1288.9	0.36
Dec. '83	496.2	118.8	147.3	152.0	322.2	1236.5	0.35
Average	521.325	156.3416667	245.4916667	264.85	452.7916667	1640.8	.6286467215

Source: Federal Financial Institutions Examination Council, Statistical Release: "Country Exposure Lending Survey, Various dates.

CAFIG1/GRF

Figure A.

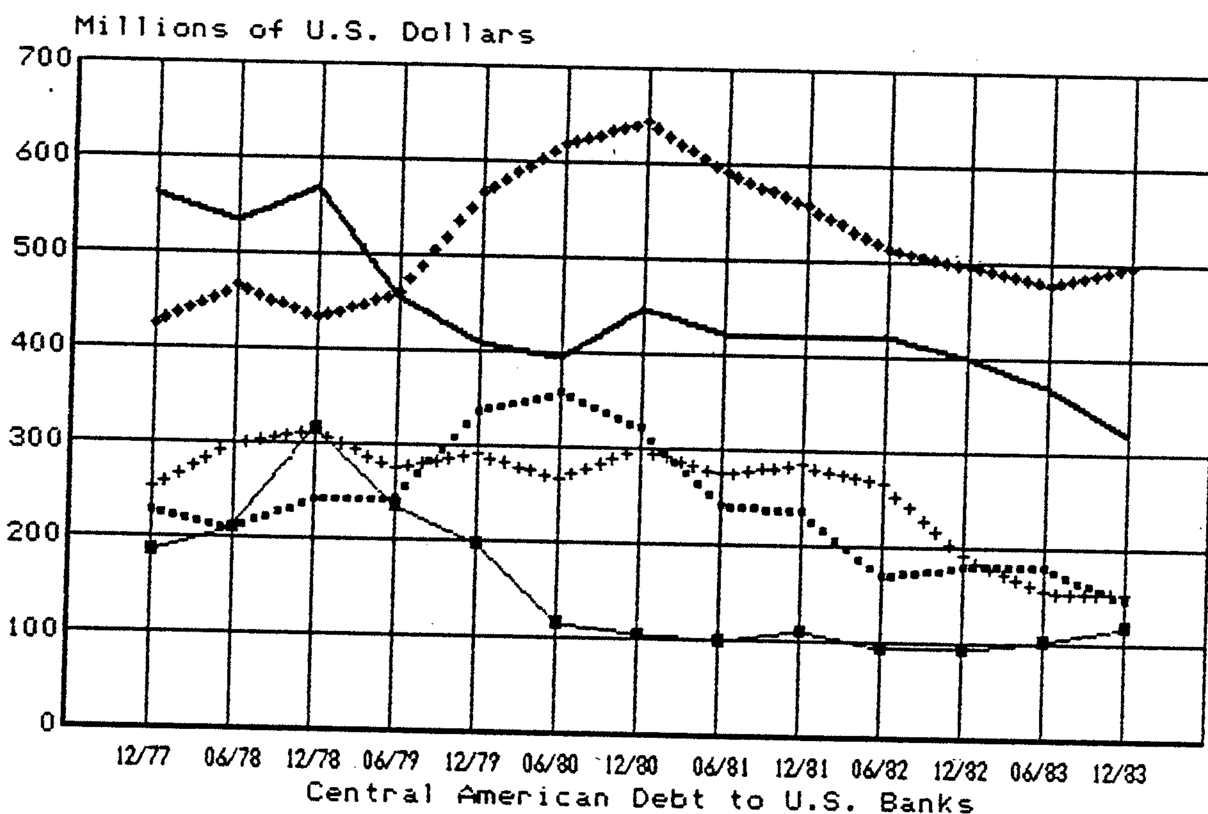


Table 5.

Short-term Debt to U.S. Banks (One Year or Less) as Percent of Total Debt to Them (1)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	C.A. Reg. Average	Global Avg.(2)	C.A. as % of Tot.(3)
Dec. '77	53.47	76.15	63.30	57.44	64.16	62.90	66.80	0.78
June '78	49.58	76.69	51.58	53.57	66.75	59.64	66.18	0.77
Dec. '78	56.72	75.50	53.33	55.01	73.33	62.78	68.02	0.81
June '79	53.57	71.61	50.02	52.43	71.48	59.82	68.20	0.67
Dec. '79	49.96	68.70	62.78	58.88	73.78	62.82	70.84	0.63
June '80	57.06	58.19	61.83	67.39	75.51	63.99	72.65	0.58
Dec. '80	61.68	59.41	70.33	70.04	56.09	63.51	73.53	0.55
June '81	56.88	69.20	60.57	63.15	42.95	58.55	74.48	0.39
Dec. '81	64.80	74.08	71.91	63.88	29.60	60.85	73.51	0.38
June '82	71.79	67.06	69.83	63.51	28.07	60.05	72.90	0.33
Dec. '82	68.84	64.76	68.47	58.66	13.79	54.91	71.29	0.28
June '83	67.36	57.23	63.31	41.53	10.45	47.98	70.34	0.24
Dec. '83	58.91	55.89	61.17	57.17	44.26	55.48	69.83	0.27
Average	59.31	68.22	62.27	58.79	50.50	59.82	70.73	0.51

(1) Includes all borrowing for one year or less by public and private borrowers.

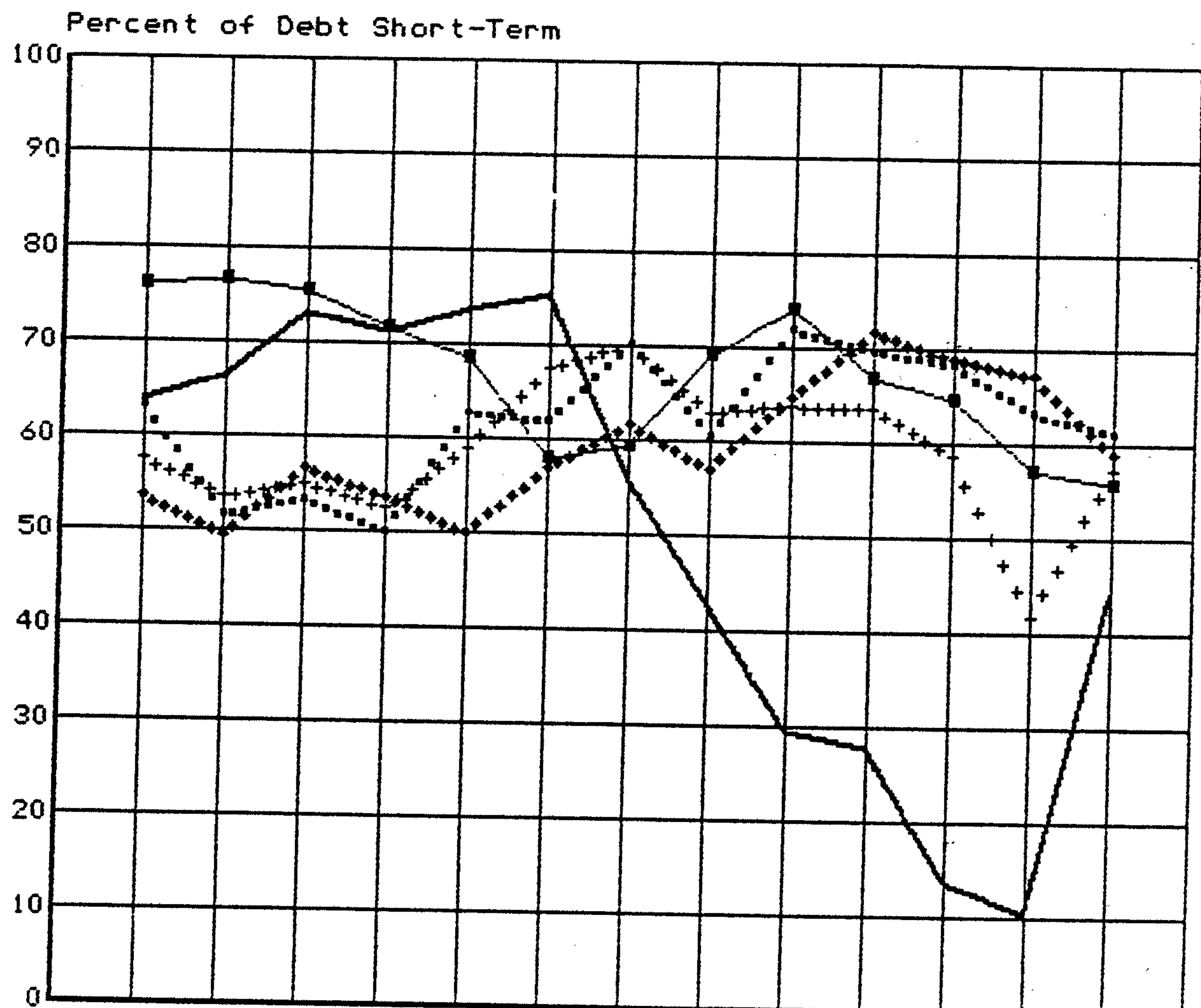
(2) The proportion of world-wide U.S. foreign bank debt that is short-term.

(3) That is, short-term borrowing by Central American countries as a percent of total world-wide short-term borrowing by foreigners from U.S. banks.

Source: Federal Financial Institutions Examination Council, Statistical Release: "Country Exposure Lending Survey," Various dates.

CAFIG2/GRF

Figure B.



Central American Short-Term Debt (1 Year or Less) to U.S. Banks

share was 15% of the region-wide average of 62.8%, and it was one of the highest encountered in Central America for the entire period for which data are available.

As the medium-term loans of the Somoza era came due, the proportion increased to 75.5% in mid-1980. Since that time the total absence of short-term lending by U.S. banks is reflected in the plummeting of the share of Nicaragua's debt that was short term. From June 1980 to June 1983 the share fell to 10.5%, a condition that was totally inconsistent with relative economic indicators, totally inconsistent with the banks' lending policies in the rest of Central America, and totally inconsistent with the expressed preferences of the Nicaraguan government. Figure B depicts the difference in the treatment that Nicaragua has received by comparison with the other Central American countries. Despite the near total collapse of the economy of El Salvador, the refusal of the Costa Rican government to agree to an IMF adjustment program and the burgeoning there of the highest debt in Central America, and massive capital flight from Honduras, the banks have continued to make short-term loans to each of these countries in relatively constant shares of total borrowing.

The treatment by U.S. banks of El Salvador is particularly noteworthy. U.S. banks reduced their lending to El Salvador from roughly $200 million at the time of the <u>coup</u> that brought the Salvadoran Junta to power in November 1979 to $100 million 6 months later. But El Salvador has continued to receive a constant flow of U.S. bank financing at that level, despite the fact that the Salvadoran banking system was also nationalized by the government, just a few months after the Nicaraguan government took over its banks. The proportion of lending to El Salvador that was short-term decreased slightly as the lending level fell, but it has followed the region-wide average ever since.

The apparent upsurge in short-term lending to Nicaragua between June 1983 and December 1983 is misleading. That change in the status of loans outstanding simply reflects the fact that Nicaragua accepted new maturity dates in late 1984 for a portion of the Somoza debt that had been restructured. As soon as the calendar moved Nicaragua within a year of paying off those loans, they were re-classified as "short-term." Nicaragua continues to receive virtually no credit from any U.S.-based source.

The official position of the Reagan administration now reflects the prophetic vision of Pedro Vuskovic. In July 1983 an administration spokesman, James Conrow, the Treasury official responsible for U.S. votes in the Multilateral Banks, announced that the U.S. would vote against all loans for Nicaragua "unless the revolutionary Sandinista

government takes steps to 'revitalize the private sector' and 'improve the efficiency of the public sector.'" [47] (These are, of course, precisely the policies which the Nicaraguan government has been pursuing most vigorously, even amid criticism from the Left.)[48] The same news report that announced the policy also noted its inconsistency. The U.S. regularly votes in the World Bank for loans to countries with predominantly socialist economies, such as Yugoslavia; and it strongly supports policies in El Salvador that it criticizes in Nicaragua, such as the nationalization of the banking system and "a land reform programthat has affected more land formerly in private hands than the Nicaraguan plan." There is virtually no explanation for depriving Nicaragua of its access to credit from the U.S., whether supplier's credits or bank credit, other than a conscious policy of economic aggression.

External Financial Assistance to Nicaragua.

The extreme inherited financial dependency of Nicaragua in 1979, the deteriorated export earnings, and the wide range of policies to undermine the economy financially have increased the urgency with which Nicaragua has sought international financial assistance. Data on total assistance to Nicaragua are difficult to accumulate; for many forms of assistance, such as commercial loans and other trade concessions from Third World nations, are not monitored and published in any consistent fashion. The OECD, however, publishes annually the most comprehensive survey of the geographic distribution of financial flows from its member countries (and selected other countries) to all the nations of the Third World.

The OECD data relevant to Nicaragua are shown in Table 6 for the period from 1976 to 1982, in addition to data on IMF flows not covered by the OECD.[49] The principal trends for that period are displayed in Figure C.

It is important to understand the nature of the data in Table 6 and Figure C. They constitute, first of all, "net" disbursements of assistance. That is, they are actual payments made to, or on behalf of, the Nicaraguan government; and they are adjusted for any repayments that the government may have made. The payment of an outstanding loan and the issuance of another loan of the same amount would appear here as a "zero" net flow. So these funds constitute real increases in assistance each year. "Disbursements"

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47. The Washington Post (July 1, 1983)
48. Cf. M.E. Conroy, False Polarization..., .op cit.
49. More recent data covering 1983 will not be published by the OECD until March 1985.

Table 6.

Net Financial Flows to Nicaragua from the Industrialized Countries, Multilateral Agencies, the IMF, and OPEC: 1976-82 (Millions of U.S. Dollars)

	1976	1977	1978	1979	1980	1981	1982	1980-82
TOTAL ESTIMATED FLOWS (a):	73.8	69.9	57.9	177.2	235.8	367.4	205.8	809
	1	2	3	4	5	6	7	
Net from Non-CMEA (b):	73.8	69.9	57.9	177.2	235.2	287.4	148.8	671.4
(% from Non-CMEA):	100.00	100.00	100.00	100.00	99.75	78.23	72.30	82.99
Net ODA from DAC (c):	18.5	24.9	29.6	73.8	116.6	59.2	76.9	252.7
(% ODA from DAC):	25.07	35.62	51.12	41.65	49.45	16.11	37.37	31.24
Net ODA from U.S.:	14	14	24	29	79	14	6	99
(% ODA from U.S.):	18.97	20.03	41.45	16.37	33.50	3.81	2.92	12.24
Net from OPEC (d):	0	0	0	1	0	100	0	100
(% from OPEC):	0.00	0.00	0.00	0.56	0.00	27.22	0.00	12.36
Net IMF Credit (e):	0	2	.013	55.9	-4.9	-20.4	-4.02	-29.32
(% from IMF):	0.00	2.86	0.02	31.55	-2.08	-5.55	-1.95	-3.62
Net Multilateral (f):	20.6	31.2	18.9	42.3	111.1	111.3	54.2	276.6
(% Multilateral):	27.91	44.64	32.64	23.87	47.12	30.29	26.34	34.19
IBRD/IDA:	5.8	14.5	5.9	5.5	26.5	36.5	13.9	76.9
IDB:	12.5	14.6	11.3	29.3	34.2	49.3	22	105.5
sum + US	32.3	43.1	41.2	63.8	139.7	99.8	41.9	281.4
(% IBRD/IDA and IDB):	24.80	41.63	29.71	19.64	25.74	23.35	17.44	22.55
Net CMEA Countries:	0	0	0	1.6	.6	80	61	141.6
(% CMEA):	0	0	0	.9	.2	21.9	32.1	17.50
Net Private Sector (g):	n.a.	.2	1.1	3.6	5.3	33.2	15.1	53.6
Net Export Credits:	n.a.	10.8	-5.9	-5.9	-8.6	31.7	13.4	36.5

(a) From DAC, OPEC, and CMEA countries and the IMF; totals in this line equal "Total Receipts Net" in the OECD tables, plus net IMF credits, plus gross CMEA credit.

(b) Includes Official Development Assistance, as defined in (c) below; other non-ODA official flows from DAC countries; ODA and non-ODA financing from multilateral agencies listed in (f) below; and other private financial flows.

(c) ODA (Official Development Assistance) is defined here as grants and loans to developing countries provided primarily for development objectives and containing a "grant element" of 25% or more. The DAC (Development Assistance Committee) of OECD consists of 17 countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

(d) Here effectively Libya; does not include petroleum credits from Venezuela or Mexico.

(e) Calculated from changes in "Use of Fund Credit," converted from SDRs to U.S. dollars.

(f) The Multilateral agencies include the World Bank (IBRD), the International Finance Corporation, the International Development Association (IDA), the Inter-American Development Bank (IDB), ten other regional and OPEC-financed institutions, and the principal relief and economic assistance agencies of the United Nations.

(g) Includes primarily direct and portfolio investments and private export credits.

SOURCES: Geographical Distribution of Financial Flows to Developing Countries (Paris: OECD, Various Issues); IMF data from International Financial Statistics, April 1984.

must be distinguished from "commitments" or "contracts," for the announcement that a loan has been granted seldom means that the funds flow immediately. The actual disbursement of the funds is normally dependent on the fulfillment of an often complex series of conditions, including purchasing materials in a specific country, providing progress reports, obtaining monitoring of the project, etc. As political conditions change, as with the case of U.S. aid committed to Nicaragua but never disbursed, commitments may never be disbursed.

Where the financial flows in Table 6 are characterized as "ODA," or "official development assistance," they are grants and loans whose terms are generally "concessional." Loans at current market rates of interest from banks or other lenders are not included; the specific technical criterion used by the OECD for "ODA" is that the loan must have at least a 25% grant element. Financial assistance from the Socialist-bloc countries, the CMEA, is given by OECD as "gross flows," but they are treated here as "net flows."

These data do not include financial flows from the Latin American and other Third World sources that have also assisted Nicaragua. There is no organization that gathers and publishes systematic data of that sort, but fragments of information are available to indicate the extent to which the OECD data include most of Nicaragua's economic assistance. From July 1979 to March 1982, Nicaragua received a total of $1.2 billion in commitments, of which only $677 million had been disbursed. The distribution of those disbursements across all sources suggests that the OECD data include approximately 81% of all flows. Data on the distribution of "commitments," provided below, demonstrate the relative levels of aid "promised" by all major groups of countries; but they do not indicate what Nicaragua actually received.[50]

For the period prior to the insurrection, 1976 to 1978, average net financial flows to Nicaragua from the sources covered by the OECD amounted to slightly more than $200 million dollars, an average of $67 million per year. The U.S. government and U.S.-controlled agencies provided the majority of the official development assistance for Somoza during those last years before his downfall. In the first two years of that period, aid from the U.S. and the U.S.-dominated multilateral agencies (the World Bank and the Inter-American Development Bank) amounted to an average of 52% of the financial assistance received by the Somoza government. During 1978 that share rose to 71% of all

50. Calculated from data in Latin America Weekly Report, 12 November 1982.

assistance. Throughout the period the direct and indirect assistance from the U.S. increased at the same time that aid from the rest of the world was decreasing.

Data for 1979 are confounded by the fact that there is no separation between financial assistance received prior to the July 19th triumph of the revolution and that disbursed after that date. The IMF credit amounted to 32% of total financial assistance for 1979, but it was extended to the Somoza government during the Spring of that year. Net disbursement of financial aid from 1980 through 1982, however, clearly reflects the post-revolutionary response of the international community to the new government.

Nicaragua received a total of $809 million in net financial flows from 1980 to 1982 from the sources covered by the OECD data. Nearly 83% of that came from non-CMEA countries, countries outside of the Socialist-bloc. Only 17.5% came from the Socialist countries, a total of $141.6 million; and 99% of that aid was received in 1981 and 1982, after the U.S. government had announced its intentions of suspending all assistance to Nicaragua. The U.S. provided only 12% of the economic assistance received by Nicaragua in that period; the U.S. and its closely-controlled agencies provided 35%. Western Europe, Japan, and Canada provided Nicaragua with $154 million in aid during that period, 19% of total aid. The remainder of the aid totalled here came from OPEC countries, other regional multilateral agencies, and the principal relief and assistance agencies of the United Nations.

The table also shows that the IMF generated negative aid flows. The IMF is the only international organization that forced Nicaragua to pay back pre-revolutionary loans during the period immediately following the insurrection. The IMF had extended an exceedingly controversial credit facility to Somoza for $66 million dollars during the waning months of his regime. Pressure from the U.S. had overcome the opposition of European and Latin American representatives at the IMF, and Somoza drew down $55.9 million of the credit facility before he was overthrown. When the Sandinista government revealed to the IMF that the credits had been used inappropriately by Somoza, the IMF invoked a seldom-used clause in its agreements and demanded immediate repayment from the new government, exercising total indifference to the disastrous financial conditions that Somoza had left behind. Nicaragua responded by excluding the IMF from the debts that it renegotiated and restructured in 1980 and 1981. The distance that it now maintains from the IMF leaves it effectively barred from receiving further IMF credits until that loan is completely repaid; and IMF data indicate that all but $10 million has

been repaid.[51]

Total commitments to the Sandinista government from 1979 to 1983 reflect a fundamentally similar pattern: Nicaragua continues to receive offers of assistance from a wider and more diversified set of nations than it experienced prior to the revolution. The total magnitude of the commitments continues to provide considerable assistance, beyond that which is available to virtually any other Central American nation. The commitments from the Socialist-bloc countries have fluctuated; but they remain, on average, only 25% of the total economic aid offered to Nicaragua. The U.S. share in total commitments to Nicaragua by the end of 1983 was only 3% of the total received since 1979. The U.S.-affiliated multilateral agencies provided relatively large shares of aid during the first years of the period, but the policies of the U.S. administration are clearly reflected in the reduction in their commitments since 1981.

It is important, once again, to reflect carefully on the meaning of the data presented in Table 7. These data on "commitments" represent signings of loan packages, many of which will be disbursed over multi-year periods. They also represent some promises of aid that never materializes. They do not include the value of outright grants, such as emergency relief after the May 1982 floods or the many millions of dollars in direct donations by private, non-governmental U.S. and European organizations.

It is most important, furthermore, to recognize that these are indications of future gross flows of aid. Each commitment has its own schedule of payout. The differences between commitments from the Socialist-bloc countries in 1980 to 1982 ($460 million) and the actual disbursements that occurred, according to OECD data ($141.6 million) is illustrative. A trade credit extended for a year and then rolled-over annually is counted as a new commitment every time that it is rolled over. Approximately $200 million per year is being used just to amortize older credits, leaving much smaller quantities of net financial flows.

Nicaragua has received offers of $2.5 billion in economic assistance during the first four and one-half years of the revolutionary period. Fully 49% of that has come as official bilateral assistance from non-socialist countries of Western Europe, North America, Latin America, Africa and Asia. Another 26% has been provided by multilateral

51. See Richard Sholk op. cit.; Jim Morrell and William Jesse Biddle, op. cit.; and IMF, International Financial Statistics, April 1984, p. 332.

organizations in the non-socialist countries. Only 25% has been provided by the Socialist countries, a total of $606 million.

The official Nicaraguan data in Table 7 are significant in that they provide the only complete listing of commitments available that includes offers of aid from the Latin American countries. OECD data on commitments are available for the 1979-82 period, but they suffer from two of the problems found already in the data in Table 6. The 1979 data do not separate commitments to Somoza from commitments to the Sandinista government; and there are no data for 1983 or for the majority of the Third World. The OECD data indicate, for example, total CMEA commitments for 1980-82 of $370 million, considerably less than the $460 million shown here in Nicaraguan data. This is probably a healthy sign of greater completeness in these data.[52]

Total aid offered by the U.S. and by the major multilateral agencies has followed a pattern of rapid decline from peaks in 1981 to the lowest levels yet in 1983. Figure D displays this trend and juxtaposes it to the pattern of increase in commitments from the Socialist countries. The peak year for commitments from the Socialist countries was 1982, and the increase from 1981 to 1982 was almost exactly the amount by which U.S. and multilateral aid fell between 1980 and 1981. Total aid offered to Nicaragua peaked in 1981, thanks largely to a single loan of $100 million from Libya provided in direct and defiant response to the announcement of the cancellation of bilateral U.S. assistance and the announcement by the U.S. that it would use its influence to block further loans from the World Bank and the Inter-American Development Bank. Commitments from non-Socialist countries and organizations have been greater than those offered by the Socialist countries in every year except 1982.

Economic assistance from the Third World (Latin America, Africa and Asia) has amounted to 36% of the total received by Nicaragua since 1979. That aid peaked in 1981 with a total of $438 million, 63% of the total. It has run at slightly under 30% for the last two years of the period, 1982 and 1983. Western European economic assistance has fluctuated between 5% and 20% of the total, reaching its highest level in 1983.

These data reflect both the continuing need in Nicaragua to seek substantial external financial assistance, whether in the form of trade credits or direct long term loans for development projects. The pattern across countries and across time reflects a

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52. See OECD, Geographical Distribution of Financial Flows to Developing Countries (Paris: OECD, 1984), p. 161.

Table 7.

Total New Commitments of Multilateral and Bilateral Assistance

to Nicaragua, by Major Country Grouping: 1979-83

(Millions of U.S. $)

		1979	1980	1981	1982	1983	1979-83
1. Multilateral Organizations	($)	213	170.9	86.2	93.6	65.1	628.8
	(%)	78	32	13	17	15	26
World Scale	($)	22	67	33.7	37	0	159.7
	(%)	8	13	5	7	0	7
Regional	($)	191	103.9	52.5	56.6	65.1	469.1
	(%)	70	20	8	10	15	19
2. Official Bilateral	($)	58.7	356.7	600.9	448.1	35	1499.4
	(%)	22	68	87	83	8	61
A. Capitalist Countries	($)	58.7	254.7	495.7	195.2	204	1208.3
	(%)	22	48	72	36	48	49
Western Europe	($)	14.6	63.2	60.2	38.7	86.7	263.4
	(%)	5	12	9	7	20	11
North America	($)	0	72.6	0	0	0	72.6
	(%)	0	14	0	0	0	3
Latin America	($)	44.1	118.9	332.5	153.5	83.5	732.5
	(%)	16	23	48	28	20	30
Africa & Asia	($)	0	0	103	3	33.8	139.8
	(%)	0	0	15	1	8	6
B. Socialist Countries	($)	0	102	105.2	252.9	146	606.1
	(%)	0	19	15	47	34	25
3. Grand Total	($)	271.7	527.6	687.1	541.1	425.1	2452.6
	(%)	100	100	100	100	100	100

Source: Fondo Internacional para la Reconstruccion (FIR), to be published in the Junta de Gobierno de Reconstruccion Nacional, "Informe del 4 de Mayo."

strong and negative response to the attempts by the U.S. to isolate and delegitimize the Nicaraguan revolution. They also illustrate the considerable success that Nicaragua has had in obtaining external support to replace that which the U.S. has successfully blocked and to replace the export earnings that have been hurt by U.S. economic policies designed to harm Nicaragua.

Conclusion.

Nicaragua is the present object of a broad set of policies from the U.S. government that can only be characterized as economic aggression. They consist of attempts by the U.S. to deprive Nicaragua of many forms of international assistance to which that nation has as much a right as any. They include pressures on the private sector in the U.S. to deprive Nicaragua of credit, imported products, and markets for its exports, even though normal economic criteria would dictate that conditions for trade and finance are better in Nicaragua than in much of Central America. And they have led, under very rapid progression, to the organization of overt military attempts to overthrow the government, knowing that the minimal consequences of such activities will be very destructive for the economy. The overall pattern of so-called "covert" aid to counterrevolutionaries has profoundly economic implications, for it provides the critical basis for creating terror within the country, disrupting investment, and delaying acceptance of the new social order by many private sector entrepreneurs who are being invited to participate in the reconstruction of Nicaragua.

The nature of the economic aggression has been determined largely by the previous economic dependence of Nicaragua upon trade with the U.S., extensive short-term U.S. financing of Nicaragua's chronic external imbalance, and the expansion of concessional assistance for marginal development programs. The nature of that dependence is typical of the present situation in much of the Third World. What is being repeated in Nicaragua is the willingness of a U.S. administration to use all the economic and political leverage that it can muster to do damage to another economy by exploiting the very essence of the inherited dependence.

What is new in Nicaragua is the extent to which international financial assistance from around the world is now assisting in the process of counteracting that economic aggression. The Socialist-bloc countries came to the assistance of Cuba in the 1960's when explicit economic aggression on such a broad front last was seen; few Third World nations or Western European nations were willing then to provide support of the magnitude that Nicaragua continues to receive. Nicaragua sought assistance first from

the U.S., and from both the public sector and the private sector in the U.S, at the same time that it was seeking and receiving new levels of assistance from Western Europe and parts of the Third World. Nicaragua has now responded to the deliberate withholding of aid by the U.S. and by the multilateral agencies dominated by the U.S. by replacing it with growing commitments from the Socialist-bloc countries.

If there is a lesson apparent in this experience, it is that nations such as Nicaragua that attempt to escape from the system of economic dependence that conditions the very nature of the social order can only expect economic aggression as a response from those who have perenially benefitted from that dependence. It is also clear that the emergence of solidarity in the capitalist "newly-industrializing nations" for efforts to escape that dependence will provide major new possibilities for transformation, even if they are unable to lessen the virulence of the aggression.