

**Response To An Experiment:  
The Sandinista Model of Socialism and the US Policy Towards it.**

by  
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## 1.0 Foreword

The case of Nicaragua has been one of the most controversial issues of international politics during the past decade. The Nicaraguan Revolution and the post-revolutionary policies of the Sandinistas have sparked considerable disagreement among the Nicaraguan people and international observers. The political camps are divided to an extent that people which are in one way or the other concerned with or affected by the Nicaragua's post-revolutionary development seem to be either emphatically in favor or fervently against Nicaragua's current political system. To some people Nicaragua represents that kind of 'soft' or 'human' socialism which many European leftists, or North American liberals have been dreaming of since China, Cuba or Vietnam turned out to be so disillusioning in various respects. To others Nicaragua is a Marxist totalitarian state and responsible for the spread and promotion of Communism and subversion throughout Latin America. They accuse Managua of being a Soviet beach-head seeking to 'introduce Socialism through the back-door' in order to undermine the 'Western hemisphere'.

While this thesis is being written, a Senate Select Committee working parallel with other agencies has been investigating among other aspects secret operations against Nicaragua, involving top officials of the current US administration, which underscores the political importance of a country with

barely the adult population of the Washington area. On the other hand thousands of young Europeans and Americans either travel to Nicaragua as *brigadistas* to join the national reconstruction of the country or are actively engaged in Nicaragua support groups and committees to raise funds for aid projects. The commitment of these many young people to this cause is very strong so that even the death of several *brigadistas* has not discouraged others to follow them into the Nicaraguan war-zone.

While Nicaragua seems to come very close to the romantic political ideal of many young people, to the academic world, Nicaragua poses an even greater opportunity. The Sandinistas have become a ideological playground for scholars, of which some have accused the Sandinistas of being too authoritarian and dogmatic in the pursuit of their policies, others again chide the FSLN for their 'unholy' alliance with the middle-class and private capital.

In 1984, as part of an aid and reconstruction project of the Austrian government I had the opportunity to spend several months in Nicaragua, most of them in San Jeronimo in the Province of Este Li. Due to mismanagement on the part of the Austrian organizers of the aid program and the constant Contra threat, the project finally had to be abandoned. Thus, I was given ample opportunity to explore most parts of the country. From my political background I easily could relate to many of the zealous young foreigners, who were seeking politically what an affluent capitalist welfare state at home could no longer provide. It did, initially, matter little to us that most of 'our plans for Nicaragua' were not only made above the heads of the Nicaraguans, but often unwanted and only accepted out of sheer politeness.

This paper is going to deal with the effect of US pressure designed to make Nicaragua comply with foreign political and economic interests. But at this point one should also mention the pressure created by foreigners who are actually sympathetic towards the Sandinistas and who want to bring well-intended help. This is also meant to show the personal dilemma of somebody who is essentially a supporter of the Sandinist revolution but who is also supposed to keep a 'scientific' distance to the target of the analyses. In other words, on one hand I realize the importance to confront the

Sandinistas with critical questions, such those raised in this paper. On the other hand it is relatively easy for the academic in the safety and comfort of his ivory tower to chide policy-makers subsequently for their failures and to conceive alternative models that do not have to confront reality.

When I left Nicaragua in fall 1984 I stood under the impression of the political and social progress the country had made. I had perceived Nicaragua as very open society where one did not have to be afraid of government officials, soldiers or police, unlike in so many other Latin American countries. But I also recognize that there are many people inside Nicaragua and abroad that for different reasons do not share this impression. The Nicaraguan revolution is an experiment. It is imperfect, contradictory and to some extent chaotic. It lies in the nature of everything new and innovative that failures occur providing ample opportunities for those to whom these changes are threatening to counteract and undermine this process.

## 2.0 Introduction

Why Nicaragua? Why has a country with approximately the size of Iowa and half the population of Switzerland become so important to so many people? What is so special about the political system there that some people refer to it as a very promising solution to the social economic and political crisis of Central America as well as a possible example for developing countries in general, while the administration of the most powerful country in the world claims to feel seriously threatened by it.

Nicaragua is a dependent nation whose qualities up to the revolution of 1979 were a massive political oppression, the continual impoverishment of the rural population as well as weak governmental structures susceptible to the pressure of foreign interests and small but powerful lobbies within the Nicaraguan private sector. The previous dictatorship under Anastasio Somoza pursuing a policy of world market integration promoted a political and economic system that subjected Nicaragua entirely to the interests of international market forces for the benefit of a small privileged local oligarchy. Since the revolution some qualities have changed, because of: a) a new democracy, b) new social relations c) an effective mass mobilization and politicization, and, c) a reduction of some of the dependency structures. Other qualities have remained the same due to: a) the failure

to break the overall economic dependency that had been established prior to 1979, b) the US counter-reaction from 1980-1987 involving extensive political pressure, economic sanctions and open military aggression, and, c) the experimental character of the Sandinista revolution resulting in an unpredictable and contradictory policy. Thus, a new Sandinist system with different qualities exists, some planned and others unplanned. The present Nicaraguan system reflects the entire complexity and contradictoriness of a Socialist revolution within a dependent development country. There is the self-understanding of a revolutionary movement aimed at pursuing an anti-imperialist policy by promoting emancipatory efforts in the region, while at the same time trying not to alienate the imperialist nations upon whose financial and technological support the revolutionary system depends. Furthermore, the Sandinistas show the eagerness to promote a social transformation by reallocating resources for the benefit of the exploited labor force as well as by mobilizing and politicizing the previously powerless and simultaneously they have expressed the commitment to maintain a pluralist political system and a private economic sector. The Sandinistas have the intention to break internal and external dependency structures, and at the same time they are realizing that the current financial source for further development is the domestic private sector and the international market. There is, also, the dilemma of a socially oriented but inefficient and bureaucratic public sector that is bound to lose the direct competition against an exploitive but dynamic private industry.

To the conservative ideologues in the US in general and the Reagan administration in particular the Nicaraguan experiment represents a threat because its innovative approach and heterogeneity reflecting much of the complexity of the Latin American culture and tradition might turn out to be attractive to Nicaragua's neighbors. The 'Sandinista Path' blending pragmatic Marxism, nationalism and Catholic humanism could serve as a model not only for Central America but for the entire continent. There are many factors about Nicaragua which may be unique or difficult to copy, but there are also similarities. Certain patterns are to be found in Nicaragua's neighbor countries El Salvador, Honduras, Guatemala and to a lesser extent Costa Rica and Panama. Some of these parallels are, for instance, the rather heterogeneous political opposition to the existing oligarchies,

the apparent absence of a single ideological direction, the lack of revolutionary leaders like Guevara or Castro, and finally the role of liberation theology. Particularly El Salvador with a guerrilla movement organized similar to the FSLN was a potential candidate for imitating the Nicaraguan experiment. In the guerrilla-controlled El Salvadorian province Chalatenango, the two wings of the El Salvadorian guerrilla FLN and FDR had already established a social model which copies in many ways parts of the Nicaraguan system. There also may be other factors for the international, and particularly North American, sensitivity towards Nicaragua. Factors, such as Nicaragua's strategically important location, foreign economic interests as well as US efforts to prevent a further anti-systemic regime in the hemisphere. But Nicaragua by itself is economically and militarily so insignificant that those factors can hardly serve as a sufficient explanation for the enormous extent of military, economic and political measures taken by Reagan administration in order to overthrow the Sandinista government. For instance, the overall US-Nicaraguan trade comprises less than one percent of the US foreign trade volume and thus, pressure by private business circles is not certainly not a driving force behind Washington's anti-Sandinist policy, particularly, since foreign companies have been relatively little affected by the Nicaraguan revolution.

Before turning to the main argument of this paper, I would like to point out the major theoretical difficulties this thesis has to deal with. Nicaragua revolution and the US reaction to it is complex and involves so many aspects that I have restricted this paper to certain topics. When talking about the US policy, than it has to be understood, that the American attitudes, towards Nicaragua and Central America are very heterogeneous. There are very important groups within the US, even within the political establishment, which are opposed to the current US-Nicaragua policy. It is also to be understood, in turn, that opposition to the Sandinistas is not solely restricted to the Reagan administration or to the US alone, this paper however focuses particularly on the policy of the current administration since this seems to be the most serious external challenge to the Nicaraguan system. A complete investigation of the Nicaraguan model and the US response to it would have to deal with entire complexity of the US reaction to the Sandinist revolution, ranging from the support of many liberals, the Catholic church and and religious groups to the opposition of sun-belt

conservatives, private business circles and right-wing fundamentalists. It would further have to include a comparison of the US policy towards Nicaragua with the reaction to other anti-systemic revolutions such as Cuba. A more thorough analysis of the Sandinista model ought to include suggestions what can be done to make the model work. Any attempt, however, to tap all these questions would have gone beyond the scope of this paper.

This paper further argues that the social, political economic model of the Sandinistas contains numerous contradictions and problems inherent to it. Thus, the strategy chosen by the US was aimed mainly at making the Nicaraguan system collapse from within. The two main targets of this strategy are 'the social progress' made after the revolution and secondly the 'middle-class and private-sector', whose continued co-operation is essential to the Sandinista model. The destruction of the social achievements of the Sandinistas is designed to weaken support among those people in the poorer rural areas that used to be strongholds of the FSLN. By discouraging the urban middle-class, the professionals as well as the private-sector from further co-operation with the Sandinistas two effects are envisaged. First, the refusal of the private sector and professionals to co-operate would directly harm the country in many ways. Second, being an integral part of the Sandinist model, the refusal to co-operate would also force the Sandinistas to drastically alter their political and economic system. Faced with the option to abandon the revolutionary process or to become more authoritarian, the Sandinistas might then push towards the latter alternative.

This paper is essentially divided into two main parts. The first is designed to present an analysis of the Sandinista model, its economic foundation as well as its initial conception and practical implications. It also deals with the contradictions and problems inherent in the model and which also represent the basis and target of the US counter-strategy.

The second part gives an account of current US administration's strategies to undermine and destabilize the Sandinista regime in ways as described above. This section examines military and economic measures as core elements as well as what I call supportive policy measures aimed at aiding the two primary components.

# *An Analysis of the Sandinista Model*

## 3.0 The Sandinista Path - A New Beginning For Nicaragua

This first chapter is designed to give an extensive survey of the Sandinista model, its initial historic and economic conditions, its foundation, its practical implications, its success as well as its failures, contradictions and shortcomings. I am going to use dependency theory as theoretical framework for this analysis. The Sandinist model of Socialism is a reflection of the country's development as dependent nation within the capitalist world market. Dependency explains underdevelopment throughout Latin America as a consequence of outside influence. In other words, *dependencia* presents the economy of certain countries as being conditioned by other, more powerful and dominant economies. The Latin American scholar Dos Santos defined dependency as follows:

"The relation of inter-dependence between two or more economies, and (the dominant ones) can expand and can be self-sustaining, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development."<sup>1</sup>

To Osvaldo Sunkel those influencing foreign factors.. "are not seen as external but as intrinsic to the system, with manifold and sometimes hidden or subtle political, financial, economic, technical and

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<sup>1</sup> Teodinto Dos Santos, "The Structure of Dependence", *American Economic Review*, 60 (1970) p.231

cultural effects inside the underdeveloped country"<sup>2</sup>. There is no such thing as a dependency theory but different forms and types of dependence whereby different dependencia schools and theorist emphasize different aspects as primary cause for dependency<sup>3</sup>. In the case of Nicaragua various different forms of dependency have been dominating its (under)development (See Chapter 1: "Economic Foundations"). The country's extreme dependency, however, provided also conditions in which finally the Nicaraguan revolution took place. A a revolutionary, anti-systemic movement set out to establish a practicable socialist model that would break the country's dependency structures but not evolve to a socialist dictatorship.

### ***3.1 Nicaragua's Historic World Market Integration***

Nicaragua's integration into the capitalist world market occurred essentially in three steps: a) the initiation of economic relations with the core economies Great Britain and the US after the de-colonization in the first half of the 19th century, b) the establishment of Nicaragua's position within the world market as major exporter of raw materials and tropical fruits at the beginning of the 20th century and c) the consolidation of Nicaragua's integration process by reproducing the core-periphery pattern within the Nicaraguan economy.

The initial interest of the major naval powers Britain and the US in that area had primarily geographic reasons, since Nicaragua seemed to be the ideal location for a planned transisthmian canal connecting the Atlantic and the Pacific ocean. The introduction of Liberalism and the emergence of a divided landed upper-class following the Bourbon economic reforms in the Spanish colony

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<sup>2</sup> For details see: Ronald H. Chilcote, "Dependency: A Critical Synthesis of Literature." *Latin American Perspectives*, 1 (1974) p.4.

<sup>3</sup> For details see the selected bibliography at the end of the paper.

'Captaincy General of Guatemala' of which today's Nicaragua was a part, provided the opportunity for foreign interference<sup>4</sup>. After Nicaragua's independence from Spain, the two newly emerged political elites in the country, the Liberals and the Conservatives, both sought international alliances. The US and Britain to used this their advantage. By the end of the 1870s, the Liberals prevailed, but were never strong enough to destroy the conservative opposition entirely. The foreign influence produced essentially two major effects. First, none of the two political elites could maintain its position without foreign political and military support. Both parties became entirely dependent upon foreign political and economic interests. Both Liberals and Conservatives expanded their political and military ties to their allies in the US and the Europe. Secondly, political dependence soon turned into economic dependence, since the constant wars between Liberals and Conservatives needed financing. In return for foreign support the Nicaraguan parties signed over to their foreign financiers the shipping rights for the Nicaraguan water-ways. Foreigners were allowed to exploit the Nicaraguan mineral resources, and by 1980 Nicaragua was so much indebted that foreign investors controlled nearly the entire Nicaraguan food production as well as the export and import sector<sup>5</sup>.

The second phase of Nicaragua's integration into the world market begun in the late 1880s with the first major coffee boom in Europe and the US. In order to obtain the finances for a major post-war reconstruction and modernization program the Liberal Presidents Chamorro and later Zelaya had to make major economic concession to their foreign creditors. The entire Nicaraguan communication and transportation network had to be handed over to foreign creditors as security. The expansion of the coffee growing area did not only lead Nicaragua straight into the dependence upon a single major export product, but it also transformed the social and economic relations of Nicaragua's rural population. The communally owned soils of the Indian villages were expropriated and concentrated in the hands of group of coffee producers. In order to have a sufficient labor at

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<sup>4</sup> Edelberto Torres Rivas, *Interpretacion del Desarrollo Social Centroamericano* (San Jose, Costa Rica: Editorial Universitaria Centroamericana, 1971) p.5-10.

<sup>5</sup> John A. Booth, *The End and the Beginning: The Nicaraguan Revolution* (Boulder, CO.: Westview Press, 1982) pp.7- 125.

hand, a system of recruiting agricultural workers, *campesinos*, was set up. The government provided loans and other incentives for the new class of coffee planters. The new governmental measures to stimulate the coffee production included forced recruitment of (mainly Indian) workers, debt peonage and the prohibition of basic subsistence crops. The destruction of the communal subsistence economy forced the rural laborers either to seek work on the *latifundias* or to migrate to the major cities creating labor reserves for the expanding businesses and factories. Through the destruction of the subsistence economy, Nicaragua did not only lose the ability to provide enough food for its population but this development also resulted in the emergence of an impoverished rural and urban proletariat, that was entirely depending on the seasonal labor offered by the latifundias urban factories. In order to maintain the coffee production at competitive prices the economic structures had to be designed in a way so that the reproduction of a sufficiently large impoverished, landless, rural work force was guaranteed.

Although most of Nicaragua's economy was foreign controlled, the rule of the nationalist President Zelaya provided some political independence. After a US military intervention Washington installed a Conservative government, whose policy decisions had to be approved by the US State Department<sup>6</sup>. Washington forced Nicaragua to sign an agreement over foreign damage claims and alleged costs for the US assistance that in addition to the annual repayment rates for several North American bank loans exceeded the total foreign investment in the country more than twice. The agreement also provided for the establishment of the 'National' Bank of Nicaragua, of which a US Brown Brother Bank owned 51 percent and was, thus, able to control the entire Nicaraguan finance market.<sup>7</sup> As security the US also obtained a substantial share of the country's annual revenue and customs fees. In order to be able to provide the money for the annual loan repayments, the government did not only resort to an extremely restrictive budget policy causing the total collapse of public services and reduction of the entire state sector but it also had to extract an even greater portion of the surplus generated by the Nicaraguan labor force. The weakened state apparatus

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<sup>6</sup> Booth, *The End and the Beginning*, p.32.

<sup>7</sup> *ibid.* p.33.

strengthened the position of the expanding domestic private sector and foreign companies, that, like United Fruits in the province *Zelaya*, began to politically dominate entire provinces.

Finally, during the dictatorship of the Somoza dynasty Nicaragua consolidated its position in the world market. Nicaragua's economy was fundamentally one that fit the international division of labor by providing what the world market needed in fruits, coffee and other raw materials. The entire mining industry as well as the transportation and communication sector was under direct control of foreign (chiefly US) capital. Through the association with the country's two leading banks the Somoza family and a relatively small group of Nicaraguan business men managed to control the entire domestic trade apparatus. They set up a chain of domestic trade posts to handle the purchase of cotton, coffee, sugar, etc.. This system forced small producers to sell at very low prices in relation to the growing rates on the international markets. The export gains were then spent on imports to maintain a high level of luxury consumption or were directly transferred to foreign bank accounts. Through export diversification and a moderate industrialization in the late 1950s and 1960s a part of the urban middle class benefitted from the economic situation. The relative urban wealth, however, was built on the extraction of surplus generated by rural labor.

## 3.2 *Economic Foundations*

Following an analysis of Nicaragua's world-market integration, we encounter at least 5 different forms of dependency, which Nicaragua is subjected to, when the Sandinistas took over power in July 1979. Those types of dependence are<sup>8</sup>:

a) *trade dependency*, in terms of exporting raw products, food and non-manufactured goods in exchange for industrial products, petro-chemicals etc.,

b) *capital dependency* meaning a heavy dependence on private foreign investment and foreign aid as 'motor' for further development,

c) *market dependency*, by which I understand the activities of multi-national corporations (e.g. General Electric, United Fruit, Coca Cola, Nabisco, Exxon, Nestle), whose immediate goal is not the production in the periphery for the world market but the peripheral market itself. In doing so they annually return a great profit to their parent companies (in this context the charges of a de-capitalization of Central America were raised, which means that the total amount such of capital transfers as profits from commodity production and/or sales to the core exceeds the local investments),

d) *internal dependency* in terms of an internal dependency structure, where the vital part of the economy, which is not directly controlled by foreign interests (e.g. exports, distribution, banking etc.) are under the influence of a small bourgeois elite who do not only transfer their capital gains to foreign banks -- money, that could be invested within the country -- but also burden the national balance of trade by importing luxury commodities,

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<sup>8</sup> c.f. Ferdinando Henrique Cardoso, "Dependency and Development in Latin America", *New Left Review* 74, (July-August 1972), pp.83-95

e) *political dependency*, by which I would characterize basically two aspects: First, the willingness to comply with foreign political and economic goals, even at the expense of national interests and secondly, the weak governmental structure, which proved particularly vulnerable to private internal and foreign interests.

Confronted with this situation a Sandinist type of socialism would first of all be committed to breaking the internal dependency structures in a society, intending to improve the socio-economic and political conditions of the poor strata of its society and secondly attempt to gradually reduce the external forms of dependency. In order to break the internal dependency structures the Sandinistas had to meet four goals: a) to seize control over the import\export sector as well as over the national distribution process of goods and services; b) to break the political power of the private sector by setting up a new political structure replacing the old ties between the private sector and the Somozist government; c) to nationalize most of the domestic and foreign industry that is vital to the economic survival of the country; and, d) to gain control over the banking system to prevent a further decapitalization of the country. Long-term measures aimed at the reduction of external dependency would further involve a social and economic transformation of the Nicaraguan system. The marginalization of the majority of the rural population would have to be counteracted by providing direct aid to the disadvantaged segments of society in the form of a reallocation of resources from the urban to the rural population as well as by providing education, social protection, higher wages, etc., and by reducing indirectly the country's dependence on the world market. This was to be achieved by a product diversification, an extensive land-reform with subsequent subsistence production, the expansion of regional markets, and, finally, bilateral co-operation with other developing countries in the areas of medicine, high technology or the power industry to reduce the influence of multi-national corporations in these matters.

### 3.3 *The Sandinista Concept of Democracy*

The Sandinist model of popular democracy with its political, economic and social implications was developed under a set of specific historical conditions, such as the various forms of dependency.<sup>9</sup> Other factors were the political heterogeneity of the Sandinista Movement (three fractions, with partly different ide directions) and the fact that the Somoza dictatorship was overthrown by a popular insurrection based on an broad alliance of highly different social groups. The basic idea is to combine representative and participatory forms of democracy into a model which will guarantee political democracy and at the same time popular hegemony in order to further the social transformation of the country<sup>10</sup>.

The official party-newspaper of the FSLN, *Barricada*, characterized the Sandinist conception of democracy in the following way:

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<sup>9</sup> For details on the Sandinista Model see:

- Thomas W. Walker, *The First Five Years* (New York, N.Y.: Praeger, 1985).
- Donald C. Hodgers, *The Intellectual Foundation of the Nicaraguan Revolution* (Austin, TX.: Univ. of Texas Press; 1986).
- John A. Booth, *The End and the Beginning - The Nicaraguan Revolution* (Boulder CO.: Westview Press, 1985).
- Omar Cabezas, *Fire From the Mountain - The Making of a Revolution* (after the original: *La Montana Es Algo Mas Que Una Imensa Estepa Verde*) (New York, NY: New American Library, 1985).
- Forrest D. Colburn, *Post-Revolutionary Nicaragua - State, Class, and the Dilemmas of Agrarian Policy* (Berkeley, CA.: Univ. of Calif. Press, 1986).

See further: Gabriel Zaid, "The Sandinista Path", *New Republic*, May 20, 1985, pp.10-13.

<sup>10</sup> Ilja A. Luciak, "Popular Democracy In The New Nicaragua: The National Union Of Farmers And Ranchers (UNAG)", paper presented at: Western Social Science Association Annual Meetings, April 23-26, 1986, pp.1-3.

"For the Frente Sandinista democracy is not measured solely in the political sphere, and can not be reduced only to the participation of the people in elections. Democracy is not simply elections. It is something more, much more. For a revolutionary, for a Sandinista, it means participation by the people in political, social and cultural affairs. The more people participate in such matters, the more democratic they will be. And it must be said once and for all: democracy neither begins nor ends with elections. It is a myth to want to democracy to that status. Democracy begins in the economic order, when social inequalities begin to diminish, when the workers and peasants improve their standard of living. That is when true democracy begins, not before..... To sum up, democracy is the intervention of the masses in all aspects of social life. We point out all this to establish on a principled basis what the FSLN understands by democracy."<sup>11</sup>

To the Sandinistas the idea of popular and formal democracy does not have to be antagonistic. They are complementary and indispensable in the forming of a Socialist government. Thus, the Sandinistas have been trying to set up a model which resembles features of both types.

"...popular democracy extends beyond representative democracy, but without the two model contradicting each other: popular democracy, rather than being restricted to the political sphere, begins in the economic order, and further, direct participation by the people in all sectors of socio-economic life is crucial."<sup>12</sup>

The two main elements of the Sandinist model therefore are: first, the Sandinista mass organizations designed to increase social mobilization and to promote an extensive agrarian reform, representing participatory democracy, and second the electoral process of 1984 and its continuation in the form of the new constitution of 1986 providing a type of party-political pluralism as it can be found in other Western democracies. Along with the political process the Sandinista have tried to maintain a mixed economy<sup>13</sup>, which they understand as economic and political necessity for the practicability of the system. This means, however, that the economic structure has to be transformed in a way that the internal economic dependence on a bourgeois elite who was in sole control of export, banking and large-scale production had to be broken. Therefore one of the first measures was the nationalization of the export and the banking system as well as a redistribution of land.

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<sup>11</sup> FSLN, "Declaracion del FSLN Sobre la Democracia", Barricada, August 24, 1980. see also: Ilja A. Luciak, "Popular Democracy In The New Nicaragua"

<sup>12</sup> Ilja A. Luciak, "Popular Democracy In The New Nicaragua: The National Union Of farmers And Ranchers (UNAG)", paper presented at: Western Social Science Association Annual Meetings April 23-26, 1986, Reno, Nevada p.3

<sup>13</sup> c.f. Thomas Borge, Carlos Fonseca, Daniel Ortega, Jaime Wheelock, *Sandinistas Speak*, (ed.) Bruce Marcus (New York, N.Y.: Pathfinder Press, 1982) pp.95-96, 113, 134. See also: *Speeches by Sandinistas*, Nicaragua. (ed.) Bruce Marcus (New York, N.Y.: Pathfinder, 1985) pp.5, 66, 136, 155, 162, 177-78., 198, 316. See also: Ilja A. Luciak, "Popular Democracy In The New Nicaragua".

Sandinistas, however, have always expressed the attitude that they consider middle-class an important factor of growth. Consequently, they have therefore encouraged private investment and private small-scale production. The mixed economy consists of a private sector and a socialized sector of state property as well as different forms of economic cooperatives. Particularly the *Third Tendency* has always emphasized that it was never envisaged to destroy the middle-class or, let alone, establish a dictatorship of the proletariat.

"Nicaragua's political pluralism is based in this economic structure. The Sandinistas do not conceive the possibility of political pluralism without the existence of real economic pluralism. Both components, the mixed economy and political pluralism can project themselves in the international arena only in terms of a genuine non-alignment."<sup>14</sup>

In both the political (popular hegemony) and the economic model (mixed economy) the middle-class does not only remain an integral element of the system, it also becomes a vital factor and prerequisite for its applicability and practicability.

In support of this approach the Marxist theorist Ernesto Laclau argued that "the task of the Left therefore can not be to renounce liberal-democratic ideology but on the contrary, to deepen and expand it in the direction of a radical and plural democracy"<sup>15</sup>. The Nicaraguan minister of agriculture Jaime Wheelock<sup>16</sup>, who considers himself a member of the proletarian tendency with a political and conceptual background stemming from the Unidad Popular movement in Chile, views the role of elections in Nicaragua in the following way:

"Somoza always won the elections, and by an overwhelming majority....(since) there was no system of national identity cards of any sort, one person could vote fifty times.....The Sandinista Front did not think it was necessary to hold elections (in the first time after the revolution) because it felt, in the first place, that the revolution had been a perfect test of opinion, of much greater democratic content...Imperialism is demanding us to hold elections, not because they are convinced that elections are the guarantee of a government's legitimacy but because they think the revolution could be overthrown by elections...and in fact it would be a great setback if we were planning to repeat something like the worn-out electoral maneuvers of the Somocista past. In Latin America, elections have gen-

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<sup>14</sup> Ilja A. Luciak, "Popular Democracy In The New Nicaragua: The National Union Of Farmers And Ranchers (UNAG)", paper presented at: Western Social Science Association Annual Meetings April 23-26, 1986, pp.3-4.

<sup>15</sup> Ernest Laclau, Chantal Mouffe, *Hegemony and Socialist Struggle - Towards a Radical Democratic Politics* (London: The Thetford Press, 1985) p.176.

<sup>16</sup> Gabriel Zaid, "The Sandinista Path - Why They Are Who They Are", *New Republic*, May 20, 1985 p.11.

erally been discredited...The ruling groups in general employ this type of elections to confuse the people with...manipulative campaigns..."<sup>17</sup>

Wheelock here addresses the problem that Latin American people, in general, have little confidence in elections as major element of a representative democracy, since too often they have proved to be charades that served the interest of a certain elite or an educated middle-class and could little offer to the impoverished rural proletariat. He goes on to say that:

"Our duty as Nicaraguans and as Latin Americans is to seek to overcome historically within the framework of democracy, the contradiction inherent in traditional elections - namely, that they are anti-popular...we must study universal suffrage, in the sense, of assuring that citizens can effectively vote in accordance with their authentic interests. Its a question of consciousness, of political maturity, of more advanced popular and social organizations."<sup>18</sup>

### ***3.4 Post-Revolutionary Nicaragua and Political Practice***

When the initial coalition government under Sandinista leadership came to power in 1979, it assumed responsibility for a war-torn and impoverished nation. Some of the measures taken at that time had to deal with short-term goals in order to bring quick relief to the people. Most of the steps taken by the government, however, should clearly set the tone for the new policy that was to be implemented.

In a first step the new government went about confiscating all of Somoza's property which included the national air and shipping lines, fish and food processors, construction firms, banks, insurance companies, a television station, a newspaper, 1.5 million acres of cattle land, in all about 150 en-

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<sup>17</sup> Jaime Wheelock, *Speeches by Sandinistas* (ed.) Bruce Marcus (New York, N.Y.:Pathfinder Press, 1985) pp.152-53

<sup>18</sup> *Ibid.*, pp.152-53.

terprises. The acquisition of Somoza's property should have helped to take care of the \$1.5 billion foreign debt and \$.1.3 billion war damage, since Somoza had literally plundered the country's national bank before his departure by leaving only \$3.5 million in reserves. But, by confiscating his property, the Sandinistas did also inherit the obligation for his massive debts<sup>19</sup>. In the same speech the confiscation of the Somoza-property was announced, the Minister of the nationalized industry Fernando Guzman assured the representative of the private sector William Baez, that the government would undertake every effort to maintain a *mixed economy* and political pluralism<sup>20</sup>. The Sandinistas pledged that they would protect human rights, this was all the more important since 3000 military and civilian members of the former Somoza regime being under the custody of the Red Cross were anxiously awaiting a decision of the government what to do with them. A series of decrees governing food, transportation and public order followed<sup>21</sup>.

In a second wave of measures directed towards long-term goals all 7 private banks were nationalized and 4 foreign banks (Citibank, Cally Dagnall, Bank of America, Wells Fargo) were ordered to stop accepting deposits from the public. The junta justified this move by saying that the banking system was bankrupt and needed governmental control <sup>22</sup>.

Other new decrees and laws dealt with the organization of civic life. In order to consolidate the revolutionary process and to prevent counter-revolutionary attempts 5000 former *Somocistas* had been imprisoned, but all except the war criminals were assured to be released after a governmental investigation<sup>23</sup>. In a sweeping bill of rights citizens were promised equal rights under law, orderly process of justice as well as the right to free expression<sup>24</sup>. All restrictions on press and broadcasting

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<sup>19</sup> "Somoza Left A Well Stripped Cupboard For His Successors", *New York Times*, August 26, 1979 p.IV.3  
See also: Joseph Collins, *What Difference Would A Revolution Make ?* (San Francisco, C.A.: Institute for Food and Development Policy, 1982) p.10.

<sup>20</sup> Ibid.

<sup>21</sup> *New York Times*, July 22, 1979, p.12

<sup>22</sup> *New York Times*, July 26, p.3.

<sup>23</sup> *New York Times*, Aug.16, 1979 p.5.

<sup>24</sup> *New York Times*, Aug.22, 1979 p.1.

were lifted and plans for setting up a unified health system were introduced to the public. A strict code of ethics and behavior for public officials was intended to regain people's confidence in public institutions<sup>25</sup>. A special act regulating suspension of civil liberties exempts from a possible emergency legislation torture, slavery, imprisonment for debt, use of compulsory methods of changing thought or religious beliefs as well as arbitrary revocation of nationality.

Parallel to the decrees on civil liberties a 5-member Government of National Reconstruction (JGRN)<sup>26</sup> as well as a national council comparable to the Lower House of a parliament, where the political parties were represented according to their strength, was established. In order to carry out a hegemonical policy and to dominate the national political process it was necessary to prevent the JGRN from establishing an independent political existence. It was important to the Sandinistas to maintain control over the composition of the new government and this control-function was performed by the National Directorate of the FSLN (DNC), which was also the de-facto leadership of the party. This organizational pattern provided the most important linkage between the *representative* and *popular* part of the Nicaraguan model<sup>27</sup>

The two fundamental pillars of Nicaraguan 'popular' democracy are the various mass organizations as well as the agrarian reform project.

"Substantive democracy.....is defined by its content, be it socialist or capitalist. The essential is that the substance of representative democracy is open, according to the FSLN, that of the participatory form is preconditioned. In the case of Nicaragua, participation by the masses is supposed to set the priorities of the Nicaraguan project according to the 'logic of the majority'."<sup>28</sup>

The most important and most powerful of these grass-roots organizations (*organizaciones populares*) are: the Sandinista Defense Committees (CDS), the Sandinista Workers' Central (CST),

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<sup>25</sup> *New York Times*, Aug.11, 1979 p.5.

<sup>26</sup> Forrest D. Colburn, *Post-Revolutionary Nicaragua State, Class, And The Dilemmas Of Agrarian Policy* (Berkeley, CA.: Univ. of Cal. Press, 1986) p.37.

<sup>27</sup> *Ibid.*, p.37.

<sup>28</sup> Iija A. Luciak, "Popular Democracy In The New Nicaragua: The National Union of Farmers And Ranchers (UNAG)", paper presented at: Western Social Science Association Annual Meetings April 23-26, 1986, p.5.

the Association of Rural Workers (ATC), the Luisa Amanda Espinosa Association of Nicaraguan women (AMNLAE), the July 19th Sandinista Youth (JS-19), the National Union of farmers and Ranchers (UNAG), the Sandinista People's Militia (MPS), and finally the so called MISURASATA (Miskitos, Sumos, Ramas and Sandinistas United). The Sandinistas claim that the mass organizations are relatively autonomous institutions which draw together diverse social sectors in order to defend and deepen the process of revolutionary transformation and to channel their demands to the government<sup>29</sup>.

A further dimension of popular democratic model comprises the extensive agrarian reform project, which is intended to go beyond a simple redistribution of land (See TABLES 1 - 3). It also includes general and political education of the rural population, a reallocation of wealth to the benefit of the non-urban segments of society, the establishment of rural defense communities as well as the formation of various agrarian cooperatives. Before the revolution the richest 2 percent owned over 50 per cent of the land, while the poorest 70% of the landowners owned only 2 per cent, this, however, does not include those people only renting their miserable plots, let alone the huge number of landless *campesinos* slaving on 11 million acres of fertile soil, of which 10 million acres were solely devoted to export production<sup>30</sup>.

Despite attempts to increase industrial production during the Somoza period, agriculture remains by far the most important source of income for the country. At the time the Agrarian Reform Law was announced, ministry officials estimated that perhaps as much as 4 million acres, roughly 30 per cent of the country's agricultural land, was abandoned, idle, or inadequately used and therefore could eventually be redistributed. In its provisions for redistribution, the law provides that 40 per cent of the agricultural land will wind up belonging to independent *campesino* credit associations and production cooperatives, 25 per cent to the state, 5 per cent to small-individual owners, and

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<sup>29</sup> Ilja A. Luciak, "Popular Democracy In The New Nicaragua: The National Union of Farmers And Ranchers (UNAG)", paper presented at: Western Social Science Association Annual Meetings April 23-26, 1986, Reno, Nevada p.11.

<sup>30</sup> Collins - What Difference Would a Revolution Make, p.15.

30 percent to medium and large individual owner<sup>31</sup>. Since large and even very large owners like Sr. Pellas - being the largest private landowner in the country he produces almost half of Nicaragua's sugar and nearly all of its export rum - are of vital importance for the country, they are not excluded from the government's vision of the new Nicaragua. The law explicitly forbids land seizures by peasants and workers but also makes more precise obligation of landowners to produce and sets forth the legal consequence to do so. Against the protests of farmworkers and peasant organizations, the law prescribes compensations to owners for all idle or unused land taken over. Any abandoned land can be redistributed by the government and is not subjected to compensation<sup>32</sup>.

The agricultural reform also has provided a series of supportive measures such as the organization of credit associations and easy obtainable loans for seeds, irrigation and fertilizers. In 1981, finally, 300 state farms were turned over to *campesino* cooperatives. In all matters of the agrarian reform the rural mass organizations like UNAG were directly involved e.g. by offering education, health and housing as well as by providing an improvement of infrastructure<sup>33</sup>. Recent studies about organizations such as UNAG show that the rural mass-organizations are gaining a higher degree of independence, which results in an increasing number of deviant, mostly even more radical, positions in comparison to the FSLN<sup>34</sup>.

All in all about 83,000 families have been benefitting from the reform, the amount of largeholdings has been reduced significantly and until 1983 about 421,000 manzanas<sup>35</sup> expropriated, the expropriation-rate since then, however, has drastically declined<sup>36</sup>. Along with the agrarian reform

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<sup>31</sup> Collins - What Difference Would a Revolution Make, p.89

<sup>32</sup> Ibid., pp.90-91.

<sup>33</sup> See table on social indicators.

<sup>34</sup> Ilija A. Luciak, "Popular Democracy In The New Nicaragua: The National Union Of farmers And Ranchers (UNAG)", paper presented at: Western Social Science Association Annual Meetings April 23-26, 1986, pp.15-39. See also: Ilija A. Luciak, "Popular Hegemony or National Unity - The Dialectics of Sandinista Agrarian Reform Policies, 1979-1986"; Unpublished manuscript, forthcoming in the *Journal of Latin American Studies*.

<sup>35</sup> One manzana = 0.7 hectares = 1.75 acres

<sup>36</sup> Luciak, "Popular Hegemony or National Unity" p.7.

laws the Sandinista organized a free health system and launched a massive literacy campaign (1979-81), which was so to speak the 'bill of rights for the poor', by which they were enabled to participate in both representative and popular democracy. The illiteracy rate dropped from over 50.35 percent down to 12.07 percent of the population. In the same period the mortality rate declined from 12.2 deaths per 1.000 inhabitants in 1975-80 to 9.5 percent in 1980-85, simultaneously life expectancy at birth increased from 55 years in 1975-80 to 62 years in 1980-85<sup>37</sup> (See TABLES 4, 5).

The answer to the question why post-revolutionary Nicaragua could represent a model for others lies mainly in the enormous social progress the country has made. The Sandinistas managed to reverse the process of ongoing social immoderation. In barely two years nearly two thirds of the Nicaraguan population had received at least a minimal education. Through massive vaccination campaigns three of the most dangerous local diseases (small-pox, cholera, measles) have been wiped out, malaria is now confined to some remote areas. Nicaraguan doctors are now helping other Central American countries in their effort control the spread of epidemics. In the same two years a comprehensive health system was set up, providing free medical care, hospital service and mother and child protection. Hundreds of hospitals, health-centers and schools have been built. More than 100,000 Nicaraguans have been accommodated in new housing facilities. All Managuan *barrios* have been provided with water and electricity. A complex welfare system has been introduced including paid vacation, pension, unemployment payments etc. But most important of all is the way in which the Sandinistas achieved all this. After most successful left-wing or nationalist revolutions the social conditions in those countries improved, but usually at the price of severe oppression and dictatorial rule. The Sandinistas -- for real or for show -- attempted to set an example by maintaining formal democratic structures. In order to enable the disadvantaged to participate in the democratic process education and mass-participation in movements and programs was encouraged by the government. Despite the sharp increase of public spending, deducing considerable financial

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<sup>37</sup> Collins - What Difference Would a Revolution Make, p.89

resources from the economic sector and despite the initially catastrophic economic situation the Nicaraguan economy had markedly improved by the 1982.

With the beginning of 1983 the Nicaraguan system entered a severe economic deterioration affecting the political and social progress the country had made before. The following chapter tries to give an analysis of the current Nicaraguan systemic crisis. Why have parameters such as economic performance and democratic political conduct changed so drastically? Have the Sandinistas become victims of their own success and their own model?

## 4.0 Contradictions and Problems Inherent To the Sandinista Model

"Revolutionary Nicaragua, located in the center of America between the United States and Latin America, today condenses all of the contradictions that are particular to the peoples of Latin America....." (Jose Luis Coraggio)<sup>38</sup>

This chapter is intended to deal with the problems, contradictions and policy-failures linked to the Nicaraguan political and economic model. As shown in Chapter 1, the Sandinistas have made far-reaching commitments in terms of maintaining a pluralist economic and political structure. The policy-measures, laws and regulations adopted during the period from 1979 to 1982 seemed to underscore this commitment. During these years the Sandinistas have made enormous social progress and their policy enjoyed great popularity with the majority of the Nicaraguans. This, however, seemed to change in 1982-83 and the Nicaraguan system entered a severe crisis as the economic situation deteriorated. Do we have to conclude that the Sandinista tolerate democracy only as long as the system does not encounter internal and external resistance? Is the conceptual combination of popular and representative democracy realistically practicable, or can the survival

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<sup>38</sup> Jose Luis Coraggio, *Nicaragua - Revolution and Democracy* (Winchester MA.: Allen & Unwin, 1986) p.3

of the Sandinista-hegemony, ultimately, only be secured by authoritarian means. One could further argue that the initial success of the Sandinistas can be put down to the fact that the country felt relieved after Somoza's ouster, and that the joint efforts of reconstruction and the pursuit of a popular social policy was overshadowing the underlying problems and contradictions. Finally, what are the policy-failures and system problems that provide ammunition and leverage for US military and economic pressure?

What are, first of all, the indicators of this systemic crisis? From 1983 to 1986 the Sandinistas have repeatedly suspended civil liberties, including the right to strike. Newspapers have been banned from printing articles favorable to Somoza, the opposition paper *La Prensa* has been shut down numerous times, the official radio-station of the church hierarchy was closed for some time after it refused to broadcast the new-year address by President Ortega, thousands of Miskito Indians were deported to interior parts of the country<sup>39</sup>. In areas with intensive Contra activity civil liberties have been even more restricted affecting the freedom of travelling, access to these areas has been limited and in some regions a curfew has been imposed. The Sandinista Defense Committees have been accused of indiscriminately harassing suspected Contra supporter and since 1984 is also an increasing number of reports of human rights violation by the Sandinista army conducting operations against alleged Contra-supporters in the remote North and South of the country<sup>40</sup>.

A further indicator is the increasing militarization of the Nicaraguan society, the defense expenditures reach nearly 11 per cent of the total GNP (40-50 per cent of the national budget). Ever increasing numbers of young people is being drafted to serve in the EPS (Sandinista Popular Army)<sup>41</sup>

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<sup>39</sup> For details see: Walker - *The First Five Years*, pp.183-217., see also: *New York Times*, August 13, 1982, p.3., as well as the chapter on US military threat/Covert Operations and Contra Warfare.

<sup>40</sup> *Nicaragua - Violations of the Laws of War by Both Sides, First Supplement, January - March 1986* (Washington Office on Latin America, Washington, D.C. 1986).

<sup>41</sup> For details see chapter on US military threat/Covert Operations and Contra Warfare, resp. *New York Times*, April 11, 1985, p.1.

An indicator of a different kind is the poor economic performance of the Sandinistas. The beginning of the second economic crisis clearly precedes US economic pressure which hit the country in 1983 (See the Section on 'Failures and Shortcomings of the Sandinista Economic Policy').<sup>42</sup>

For the necessity of most of the above mentioned measures the Sandinistas seem to have good reasons and compared to the state of democracy in most other Latin American countries, one tends to push aside worries about the situation of Nicaraguan democracy. Particularly, since even most Western democracies are likely to react similarly confronted with those threats and problems Nicaragua has to worry about - as recent examples be mentioned the *Radikalenerlass* in West Germany, when Bonn felt threatened by terrorism, or Margaret Thatcher's policy to muzzle the press and the internal opposition during the Falklands crisis.

In sum, however, all these indicators seem to point at a gradual destruction of not really consolidated democratic structures, transforming Sandinista hegemony into a Sandinista dictatorship.

## ***4.1 The Sandinistas Failure in Reducing Dependency***

### ***Structures***

A major commitment of the Sandinistas was the reduction of the various forms of Nicaraguan dependency. The Sandinistas have clearly made some progress in reducing political dependency in terms of resisting to comply with foreign political and strategic interests. Similar progress has been

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<sup>42</sup> The economic depression immediately after civil war and revolution until 1981 is commonly referred to as the first economic crisis

made in the case of breaking internal dependency structures by nationalizing the major industries, banks and all of the Somoza-owned large-holdings as well as by seizing control of the entire export/import and transportation sector. Thus far, however, the Sandinistas have shown little effort in reducing the country's trade, capital and market dependency.

The country's trade dependence on the export of a few raw materials and different kinds of tropical foods in exchange for industrial goods has in fact increased over the past 4 years (See TABLE 21). A success most celebrated by many Sandinistas has been the constant expansion of the coffee growing areas in the North of the country<sup>43</sup>, so that coffee now continues to be the crucial element in Nicaragua's export industry. In this role coffee as major dependency factor has not only plagued the country for more than a century, it was also initially responsible for much of the destruction of the old Indian communities and the country's further integration into the world market<sup>44</sup>. It is understandable that it would try to benefit from the present coffee boom on the world market. But, this policy is problematic given that Nicaragua now relies on a product which is not only subject to strongly fluctuating international price levels but which can also hardly ever be exported at competitive conditions, since Nicaragua lacks transport, loading and shipping facilities. By relying on coffee, Nicaragua not only must deal with heavy Brazilian, Columbian and Central American competition, but the Sandinistas also are creating additional targets for the US-backed Contras, since the only coffee growing soils are located in the virtually uncontrollable Northern uplands along the Honduranian border.

Nicaragua's only success in fighting the trade dependence have been some rather reluctant measures<sup>45</sup> to diversify the Nicaraguan export strategy (See TABLES 23, 24, 26). But a simple

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<sup>43</sup> Despite the fact most of Nicaragua's coffee-region lies in the war-zone, the Sandinistas expanded the coffee-growing area to nearly 200,000 acres. The coffee-harvest of 1985 yielded an amount of 100 million pounds. In 1984 coffee accounted for 35 per cent of \$350 million export gains. In 1985 increased international market prices yielded extra \$55 million in foreign-exchange earnings. See: *Wall Street Journal*, January 21, 1986 p.32. See also: *Wall Street Journal*, January 21, 1986 p.32

<sup>44</sup> c.f. Amaru Barahona Portocarrero, "Estudio sobre la Historia Contemporanea de Nicaragua", *Avances de Investigacion* No.24 (San Jose, Costa Rica: Instituto de Investigaciones Sociales, Universidad de Costa Rica, 1977) pp.1- 6.

<sup>45</sup> Reluctant in so far as the US sanction-policy actually dictated a change of Nicaragua's export strategy.

substitution of lost US-markets by gaining access to the Canadian, European or Soviet markets does not necessarily resolve the country's structural dependence on a limited variety of labor-intensive/low-profit raw products, since also the Soviet Union or Europe will essentially import bananas, coffee and soybeans. A real breakthrough in Nicaragua's efforts to escape the trade dilemma would lie in a stronger regional co-operation, but the expansion of coffee or tropical fruits does not contribute anything to the increase of regional trade since also Nicaragua's neighbors have similar agricultural product structures.<sup>46</sup>

Equally bad is still Nicaragua's capital dependency. The massive capital flight in 1978 and 1979, Somoza's high indebtedness, the civil war before 1979 as well as the reconstruction and social development programs by the Sandinista government have not only consumed all financial reserves but even increased the constant need for foreign capital (See TABLE 22). The only improvement in this sector was a reduction of private foreign investment in the country, almost all financial aid now consists of loans from other countries or agencies such as IMF, World Bank or Inter American Bank. This shift of dependency from private investors to funding agencies, however, did not only increase the leverage of the US economic pressure since the US have considerable influence with all these institutions -, but ultimately even Nicaragua's newly gained 'political play' will be threatened when in view of repayment difficulties the IMF or World Bank may force the Sandinistas to pursue an economic austerity policy.

It is nearly ironic that a major factor in preventing a total collapse of the Nicaraguan economy is the country's continued dependence on multinational corporations, of which 40 (31 are US companies) are still active in the country. The biggest ones are Exxon, Texaco, Nabisco, General Mills, Hercules, Chevron, NCR, IBM and American Standard which still manage either to return profits or at least break even. Some 60 per cent of Nicaragua's total tobacco exports, for example, are controlled by the British-American Tobacco Corporation<sup>47</sup>, Xerox still returns annual revenues of

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<sup>46</sup> Nicaragua has had some success in co-operating with Costa Rica, Mexico and Panama in developing medical products in order to reduce the necessity of costly purchases from the major US drug companies

<sup>47</sup> *Business Week*, May 20, 1985 p.66.

\$12 million, or Transway International Corp. controls 75 per cent of Nicaragua's propane gas market<sup>48</sup>. With annual sales of \$400 million, multinationals are not only one of the largest employers they are also responsible for 15 per cent of the nation's annual output of goods and services. The US sanctions against Nicaragua eventually even increased the country's dependence on these corporations, since only they possess channels by which to obtain the supplies banned by the embargo. Another effect of the corporation's presence is seen in the fact that US-backed Contras are less likely to damage US property.

With total assets of \$100 million Exxon is the giant among the giants and in 1985 the company confronted the Sandinista government with the alternative either to buy the vitally important and only oil-refinery in the country or to provide sufficient foreign currency for Exxon to stay in operation<sup>49</sup>. By a special governmental order the Nicaraguan Central Bank now provides the needed dollar-amounts at a special exchange rate. The Sandinistas had no choice but to accept this *lex-Exxon* since the USSR, which guaranteed Nicaragua's oil supply until 1987, delivers unrefined crude-oil<sup>50</sup>.

It is unfair to blame the Sandinistas entirely for failure in reducing dependency structures, since industrial innovation and export alternatives require tremendous amounts of capital. The lacking ability of accumulating capital, however, is a feature of peripheral economies and it was not to be expected that the Sandinistas would be able to resolve this problem in a short time. On the other hand, the simple substitution of private industry by an inflated state bureaucracy as well as the allocation of 40 to 50 per cent of the annual budget for a massive military build up deprived the economy of badly needed financial resources causing additional damage to the economy and increasing the leverage of US economic pressure against Nicaragua<sup>51</sup>.

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<sup>48</sup> *Fortune*, May 27, 1985, p.8. See also: *Wall Street Journal*, November 14, 1986, p.34.

<sup>49</sup> *Wall Street Journal*, November 14, 1986, p.34.

<sup>50</sup> *New York Times*, May 21, 1985, p.1.

<sup>51</sup> *The New York Times*, August 15, 1983, p.IV.1..

*The New York Times*, October 25, 1983, p.4..

### 4.1.1 Heterogeneity - The FSLN's Strength and Weakness

The heterogeneous structure of the FSLN has often been considered a major advantage, compared to other dogmatic, revolutionary movements, since the Sandinista party has been able to incorporate a relatively broad political spectrum attracting a wide range of supporters. *Weltanschauungen* vary greatly among the Sandinistas, manifested in at least three different major factions, of which only one is a strong advocate of *representative democracy* and *mixed economy*.<sup>52</sup> The FSLN lacks a coherent ideology, conceptually and tactically it has drawn much of its ideology from ideas and examples of Sandino, who again was more of a nationalist *caudillo* than a Marxist intellectual. In order to accommodate the new internal and external allies during the last stages of the revolution the party dropped its much of the 'Leninist flavor'(Booth, p.146), but it essentially never rejected its 'Marxist' direction. The final compromise between the three factions resulted in the three commitments 'national liberation', 'socialism', 'full democratic liberties'.

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*Wallstreet Journal*, August 1, 1986 p.17.

*Forbes*, August 25, 1986, p.76.

*Wallstreet Journal*, June 27, 1986, p.27.

*The Economist*, August 23, 1986, pp.36-37.

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- The *Proletarios* emerged from the urban guerrilla front in 1975, influenced by the intellectual Jaime Wheelock, particularly popular among students. The other two factions have often accused the *Proletarios* for excessive propagandism as well as for adherence to a *traditional* Marxist line.
- The *Guerra Popular Prolongada* (GGP), was the heir to the original FSLN's rural organization and its two best known representatives are Tomas Borge and Henry Ruiz.
- The *Terceristas* or insurgents are presently the most influential but also the youngest and least institutionally established of the three, which sought to increase their ranks with social democratic, social Christian recruits. The two other wings have often accused the *Terceristas*: for adventurism and lack of ideological purity.

For details see: John A. Booth, *The Beginning and the End of the Nicaraguan Revolution*, (Boulder, CO.: Westview Press, 1985) pp.142-156. See also: Walker - Nicaragua the First Five Years, pp.29-65.

The interpretation and priorities concerning these goals varied among the factions, so that due to the absence of an ideological guideline the political direction of the FSLN is still unclear and remains a factor of unpredictability and uncertainty. Since the *Terceceristas* around the Ortega brothers and Sergio Ramirez were the most powerful section of the Frente Sandinista after the revolution, they were able to pursue their pragmatic course, which has been determining the Nicaraguan post-revolutionary development until today. The conflict between the factions became obvious in 1979 when some disappointed members left the organization. Finally, a political compromise was found, ensuring the *Populares* and the *GPP* would gain control at least over some crucial ministries such as Internal Security and Agriculture (responsible for the land-reform) - a division that reminded many critics of classical communist take-over tactics<sup>53</sup>.

The Sandinistas have never really been able to resolve the initial conflicts between them, so that mutual distrust and intra-party competition is a factor of great instability affecting the entire political development. Contradictions that arise out of the fact that these three groups used to be totally independent from each other and the various original member received their 'political socialization' at different historic periods. The so called *old FSLN* founded by Carlos Fonseca Amador, Tomas Borge and others had little in common with the FSLN of today. While most of the old party was destroyed by the long fight against Somoza, new groups formed that later joined that what was left of the old FSLN. One major group were the *Populares* or proletarian wing, that had been active as an independent urban guerrilla group in the early 1970s. Jaime Wheelock and Carlos Nunez used to be the leading intellectuals among them. The *Populares* understood themselves as classical Marxist revolutionary party seeking to broaden the movement's mass base by organizing unions in factories, poor neighborhoods, and among new classes emerging from industrialization. Some members of the *Populares* had been to schools in the USSR and other Socialist countries, and many of the connections between the FSLN today and the Soviet Union date back to that period. The faction *Guerra Popular Prologada* focused solely on the rural areas. This group

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<sup>53</sup> The defense ministry is headed by Humberto Ortega, who is said to belong ideologically to the *Populares* but officially calls himself a *Tercecerista*, the foreign ministry as well as the ministries of education and culture is headed by (former) priests, who are also moderate members of the *Terceceristas*

was initiated by Henry Ruiz and Tomas Borge when the old party fell apart after intra-party quarrels about the political strategy. Ruiz and Borge finally broke with the party's previous 'foco' strategy followed by Fidel Castro's forces in the Cuban Sierra Maestra. Ruiz and Borge preferred a more cautious strategy accumulating forces as advocated by Mao Zedong of China and Vo Nguyen Giap of Vietnam. The third faction, which appeared only in 1976 consisted mainly of exiles and radicals from the urban middle-class. Some of these exiles had studied in France and Germany during the late 1960s and 1970s and were thus familiar with the ideas of the New Left. Many of them shared a profound skepticism towards the traditional Soviet type of socialism. Their rejection of ideological rigidity and pure dogmatism was very appealing to many liberal elements in the middle-class and grass-roots church movement<sup>54</sup>. The crucial part of the fusion process of the new FLSN was when the three factions realized that only combined they could eventually bring about a revolutionary change of the Nicaraguan system, but, nevertheless, many of the conceptual differences remained. Radical members of the *Populares* faction such as Carlos Nunez have often publicly demanded 'harsher measures' against the 'enemies of the revolution'. With the increase of subversion and economic deterioration in Nicaragua the radical factions started accusing the 'moderates' of being 'incompetent, 'too soft' and 'too compromising', resulting in anti-democratic outbursts such as the campaign against 'speculators and black-marketeers'<sup>55</sup>.

The controversial relationship within the FSLN makes its political direction particularly susceptible to foreign pressure. The double irony of legitimization results in the fact that Sandinist radicals and US policy necessitate each other: the worse the Nicaraguan situation due to economic crisis, increasing US pressure and Contra-subversion will get, the more territory the radicals can gain, finally the stronger they become the more will Nicaragua's opponents perceive their strategy as justified<sup>56</sup>

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<sup>54</sup> Booth - The Beginning and the End, pp.142-156

<sup>55</sup> See chapter on the Sandinista's campaign against the black market

<sup>56</sup> For details on Sandinism further see: Hodgers, Intellectual Foundations, 1986)

## 4.1.2 The Narrow Path Between Pluralism and Control

"Even if we were Marxist Leninists, we'd have to be mad to think that socialism is possible here. Nothing will work unless it is economically and politically pluralistic." (Tomas Borge)<sup>57</sup>

"In contrast to Castro's ideology at the time of the Cuban revolution, the Marxist orientation of the Nicaraguan Sandinist movement is unquestioned...., however, a general pattern has developed that suggests that a Sandinist variation of Marxism is emerging and may have a significant impact in Latin America."<sup>58</sup> Beyond the initial political commitments, as expressed in Interior Minister Borge's famous statement that the Sandinista goals were "a mixed economy, political pluralism and national unity"<sup>59</sup> any attempts to fill these slogans and plans with political substance were initially chaotic. The ambiguity of the party became reflected in an ambiguous, contradictory policy that sought to introduce socialist economic forms in an underdeveloped system, scattered by the war, at the same time the Sandinistas were trying to encourage much-needed private investment, both domestic and foreign. They then wanted to ensure hegemony and promote their preeminent position and simultaneously provide participation of the political opposition, they wanted to create mass support for the political goals of the FSLN and at the same time permit a free press that could criticize the them<sup>60</sup>. They wanted to establish the Marxist orientation of their system and at the same time to project an image of non-alignment in international relations. And they wanted to establish the revolutionary credentials of the FSLN by aiding other national liberation movements, and at the same time not to alienate the US government upon whose economic assistance the success of the Nicaraguan experiment depended<sup>61</sup>

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<sup>57</sup> Zwick - National Communism, p.199

<sup>58</sup> Ibid., p.194.

<sup>59</sup> Ibid., p.196.

<sup>60</sup> Coraggio - Revolution and Democracy, p.19

<sup>61</sup> Peter Zwick - National Communism, p.196.

The FSLN's policy has remained amorphous, ambiguous and ambivalent so that the refusal of the FSLN leaders to commit their revolution to a specific ideological formula has been at once their greatest strength and weakness of the Nicaraguan development. This diffuse political standing by itself provides ample opportunity to internal and external opponents of the Sandinistas to label the FSLN's policy in whatever negative way that seems appropriate to the opponent's cause<sup>62</sup>. In return, the initial international sympathy stemmed largely from the fact that the Sandinistas did not commit themselves to a certain ideological doctrine. Support based on 'Sandinista non-commitment' drew a relatively wide range of political support, it, however, means also that this kind of support is necessarily weaker than support which is based on the fact that two share the same kind of commitment, ideological formula or value-system. This 'non-commitment problem' also put the Sandinista in the position of having to show constantly that they *haven't gone Communist*. The half-hearted Soviet support for the Nicaraguan revolution has other than purely ideological reasons<sup>63</sup>. And one could probably also argue that the relatively little backing the Sandinistas have received from Moscow improved Nicaragua's reputation in the West, but Nicaragua's 'yes/no' socialism has certainly facilitated Moscow's decision to drop much of its already weak support for the Sandinistas - as reflected in the Soviet decision to turn down Nicaragua's request for becoming a member of the COMECON, or the the announcement to stop supplying Nicaragua with oil by the end of 1987<sup>64</sup>.

In the introduction to this chapter the question of "how democratic is Nicaragua" was raised. Thomas W. Walker, John A. Booth, Luis Hector Serra, Charles Down<sup>65</sup> and Peter Zwick reach in five separate studies on the Nicaraguan political model the conclusion that essentially the democratic character of the system has prevailed - at least for the reason that the Sandinistas fear a

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<sup>62</sup> See the chapter: Rhetoric Strategy and Public Relations Campaign to Isolate and Label Nicaragua's Revolution.

<sup>63</sup> E.g. geo-political reasons, such as the Soviet interest in political and military detente with the US

<sup>64</sup> c.f. Walker - Nicaragua, The First Five Years pp.447- 466

<sup>65</sup> Walker - Nicaragua, The First Five Years pp.29-91.

further *Cubanization* of their country<sup>66</sup>. In his analysis of the Nicaraguan legislature John A. Booth examined the Nicaraguan decision-making process and legislative procedures and concludes that before the elections of 1984 most bills were introduced by the Council (where all parties are represented), bills introduced by the junta directorate were often rejected and that the Sandinistas have mostly been seeking majority or unanimous decisions<sup>67</sup>. Particularly during the electoral process of 1984 the democratic conduct - for real or for show - of the FSLN is well documented, since the Sandinistas would have had the legal opportunity - according to a previous law passed by all parties together and a unanimous vote of the electoral council representing all participating parties - to dissolve the abstaining parties and confiscate their property<sup>68</sup>.

A further indicator for the Sandinista's apparent willingness to reduce their hegemonic position is, according to the analysts Charles Downs and Luis Serra, the policy of regional decentralization as well as plans for increasing autonomy for the province *Zelaya* and for grass-roots organizations and ethnic minorities<sup>69</sup>

Despite the overall conclusion concerning the general democratic character of the Nicaraguan model, the authors emphasize that the democratic development is not based on a balance of power, but on a voluntary commitment of the FSLN, which can be terminable any time. The Sandinistas have the power and means to control the entire policy-making process. Their record, however, shows that on occasion the Sandinistas have made use of this power in order to break resistance

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<sup>66</sup> c.f. Zwick - National Communism, pp.199-200.

<sup>67</sup> Booth analyzed the political process in Nicaragua from 1980 - 1983, the emphasis of his study was on the questions, who determines the decision-making process, who introduced/passed what bills. Tables display number, initiator and the character of the bill (political, administrative, cultural, etc.), for details see: John A. Booth, *The National Governmental System*, In: *Nicaragua - The First Five Years*, (ed.) Thomas Walker (New York N.Y.: Praeger, 1985) pp.222-147.

<sup>68</sup> Walker - Nicaragua, The First Five Years, pp.41-42, Epilogue pp.521- 553.

<sup>69</sup> This by itself is not necessarily an indicator for high democratic standards since also the USSR knows regional autonomy and geographic decentralization, but nevertheless the supremacy of the CPSU is secured through the party-structure and party-internal processes. So that the democratic value of the envisaged autonomy and decentralization policy will have to be re-examined after its implementation. See here: Charles Down, Local and Regional Governments, pp.45-64; Luis Hector Serra, The Grass-Roots Organization, pp.65-91; both in: Walker - Nicaragua, The First Five Years.

and opposition. Two famous cases are the arrest of some conservative members of the Council of State and the suspension of the right to strike<sup>70</sup>.

In both cases the action taken by the Sandinistas had negative international consequences. The arrest of the COSP members, for instance, not only triggered an anti-Sandinista campaign in *La Prensa*, but it also was used by the Reagan administration to justify the suspension of relief aid<sup>71</sup>.

As in many other national socialist revolutions, the Sandinista take-over resulted in an extensive bureaucratization and systematization of state, economy and society. The contrast was particularly sharp compared with the weak state-structures under Somoza. By the nationalization of Somoza's property alone the government became responsible for 100 per cent of tobacco production, 45 per cent of sugar, 16 per cent of cotton and 20 per cent of coffee - even so 60 per cent of the total economy and 80 per cent of production remained in private hands<sup>72</sup>. In addition, the military build-up the reorganization of the internal security apparatus as well as the extensive social programs led to an 'explosion' of the public sector, so that the entire system does not only hamper efficiency<sup>73</sup>, but also implies the danger of becoming more and more *Selbstzweck* than an instrument for the pursuit of a revolutionary policy.

The political hegemony of the Sandinistas manifested in their control of the state has led to skepticism and sharp opposition of the bourgeoisie. The FSLN has not yet clearly defined its position towards the bourgeoisie. On one hand, the Front claims, that the middle-class should remain an

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<sup>70</sup> For details on the complex case of the arrest of the COSEP (conservative opposition members of the Council of State) see: Danis Gilbert, *The Bourgeoisie*; In : Walker - Nicaragua, *The First Five Years*, pp.167-177./Zwick - *National Communism*, p.199.

A further case was the suspension of the right to strike as one of the emergency measures in response to the bombing of two vital bridges. This measure was highly controversial among the Sandinistas and in long public negotiations with the workers the Sandinista leadership tried to make people understand the reasons for this policy. The attitude of the Sandinistas in this respect remained inflexible and until 1985 strikes were more or less banned - though they nevertheless occurred. See: Collins - *What Difference would a Revolution make*, p.176-179.

<sup>71</sup> *New York Times*, April 2, 1981 p.3.

<sup>72</sup> Zwick - *National Communism*, p.197.

<sup>73</sup> See section: *Failures and Short-Comings of the Sandinista Economic Policy*.

inherent part of the system and is not to be destroyed. On the other hand, the FSLN seeks to limit and reduce the middle-class' political and economic power. Yet, it has had however, with little success.<sup>74</sup>

This fundamental contradiction arises out of the Sandinista self-understanding concerning the sources of their legitimacy. The Sandinistas consider the "extent (to) that (the FSLN) is able to consolidate revolutionary power (by) keeping open the possibility for the people to transform society"<sup>75</sup> as sole source for their legitimacy. The initially loyal bourgeois opposition as well as the other political parties, however, granted the FSLN this legitimacy only because it had been the longest-active and most successful anti-Somocist force. But being only one out of several original anti-Somocist oppositional groups this means, however, that despite the overall importance of the FSLN for the overthrow of the Somoza dictatorship, the Sandinistas could not have succeeded without the help of other social and political forces. This further implies that the Sandinist's role and responsibility for the Nicaraguan reconstruction is temporarily limited and does not foresee fundamental social, political and economic changes.

If the Sandinistas are going to keep their commitment of maintaining a pluralist society, they will have to find a *modus vivendi* or at least some kind of arrangement with the middle-class, enabling them to exercise political power and participation beyond the current scope. A hostile middle-class which, according to the official doctrine, is not to be 'crushed', is not only too powerful an opponent, but also a crucial access-point for foreign pressure.

The analysis and critique of the Nicaraguan model, thus far, has only be concerned with the Sandinista policy within the wider context of 'representative democracy'. As already briefly pointed out in chapter 1, the Sandinistas seek to complement representative democracy and political

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<sup>74</sup> Danis Gilbert, *The Bourgeoisie*; In : Walker - Nicaragua, The First Five Years, pp.167-177.

<sup>75</sup> Jose Luis Coraggio - *Revolution and Democracy*, p.3.

pluralism by 'popular democracy'. The Sandinistas consider the numerous mass-organizations and mass-movements the foundation of their understanding of 'popular democracy'.

The argument made by the Sandinistas here is that the 'right to vote' is present as human right, due to the marginalization of vast numbers of the population, their effective possibility of choosing their rulers is, in fact, limited, thus, popular strategies should help deepen the representative process by educating and satisfying material needs<sup>76</sup>.

These popular strategies involve the participation of the poor majority in different mass-movements that perform a variety of functions: such as a) promoting production b) supplying basic consumer goods c) educational and cultural development d) promoting public health e) community development f) national defense by the entire population<sup>77</sup>.

It is difficult to evaluate the relationship between FSLN and these mass-organization and it is probably impossible to determine the actual degree of dependence between them and the Sandinistas. It is a historic fact, however, that massive social mobilization<sup>78</sup> and some mass-organizations originated long before the revolution. As in so many other cases the Sandinista policy towards the grass-roots organizations is ambivalent. On one hand we find 'the aristocracy of consciousness' expressed in Carlos Nunez characterization of mass-movements:

"...(mass-organizations) should guard and work to fortify the political work project of the Revolution...in the second place they should be true instruments of expressing, channeling and receiving the most urgent demands of the masses. The logic of the majority puts the emphasis on the needs of the economically, socially and politically 'marginalized' segments of society at the expense of the social core groups. It stresses the needs of the rural versus the urban population, of the *campesinos* and small farmers versus the large-holders. The revolutionary party presents the vanguard of the most conscious and active, the mass organizations's role is to mobilize the broadest popular sectors around their own interests."<sup>79</sup>

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<sup>76</sup> Carlos Nunez, *El Papel de las Organizaciones de Masas en el Proceso Revolucionario* (Managua: SENAPEP, 1980) p.20.

<sup>77</sup> c.f. Walker - Nicaragua the First Five Years, pp.65 - 87

<sup>78</sup> For details see: Steve C. Ropp, James A. Morris, *Central America - Crisis and Adaptation* (Albuquerque, TX.: New Mexico Univ.Press, 1984) pp.46-50. See further: Walker - Nicaragua, The First Five Years pp.65-90, pp.183-200.

<sup>79</sup> Nunez - *Organizaciones de Masa*, p.20.. See also: Michael Lowy, "la Democracia no es un Lujo", *Pensamiento Propio*, No.18 (1984) p.12. see further: Luciak, "Popular Democracy" p.13.

This kind of characterization is probably exchangeable with any official Soviet description of the role of mass-organizations in relationship to the party. However, the situation in Nicaragua is more complex. In Thomas Walker's study "Nicaragua, The First Five Years", Luis Hector Serra concludes:

"It is an error to view the OP's (organizaciones populares) as simple instrument of the FSLN...The OP's have without a doubt demonstrated a growing capacity over the first five years to participate in the formulation and implementation of state policy and this way, it involved the majority of the population in governmental decision-making"<sup>80</sup>

Coraggio characterizes the dialectical relationship between party and mass organization as "at times led, at times ahead of and autonomous from the leadership of the FSLN"<sup>81</sup>.

Mass organizations in Nicaragua are a means of the FSLN to break middle-class opposition, particularly since most of them are represented in the State Council, increasing the FSLN's influence in the institutions of the 'representative democracy'. It is also true that the Sandinistas provide 'guidance' (others might say 'dominance') for the grass-roots organizations. Furthermore, it is also the case that many high-ranking members of mass-organizations are members of the FSLN. On the other hand, OP's have deviated from the Sandinista policy numerous times, they have publicly challenged the Frente and actively supported the strike-movement as well as sharply criticized the economic policy of the Sandinista<sup>82</sup>

Further, even within the OP's there are numerous problems to solve. The degree of organization and social mobilization varies from region to region as well as from time to time. These fluctuations in strength and political power affect the OP's relationship to the party. A further major problems in the past was the increasing bureaucratization of the regional sections of OP's due to the numerous tasks they had to perform. In many instances people within the regional OP's were over-

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<sup>80</sup> Walker, Nicaragua - The First Five Years", pp.77-78.

<sup>81</sup> Coraggio, Nicaragua - Revolution and Democracy, p.3.

<sup>82</sup> Famous in this context is the weekly Nicaraguan TV-show "Face the Nations", where the responsible ministers and the members of the directorate have to face live and publicly a large audience - in 1984 I witnessed one of the programs, when it was broadcast from a central plaza in Managua. See also: Walker, Nicaragua - The First Five Years", pp.77-78.

burdened with the responsibilities and being tied down in thousands of projects and programs OP's voluntarily gave up more of their autonomy and independence than necessary. Nevertheless, in a poor country like Nicaragua, where the majority of the people are uneducated, democracy can not be reduced to a formal democratic procedure, where people cast votes every 4 or 5 years and most of the social progress, that Nicaragua has made in those past 7 years, would not have been achieved without the grass-roots movements<sup>83</sup>

## *4.2 Failures and Shortcomings of The Sandinista*

### *Economic Policy*

Before turning to the failures and problems of the Sandinista economic policy, respectively before analyzing the composition and impact of US economic and political pressure on the Sandinista model, the following section is intended to give a survey of economic problems the peripheral Latin American economies in general and Nicaragua in particular have to deal with. This is necessary to isolate the effects of Sandinist policy failure and US sanctions from the effects of general economic crisis, respectively the economically negative situation of post-Somocist Nicaragua.

This section will further make the argument that Washington's economic policy towards Nicaragua is designed to increase and aggravate already existing system-problems and economic difficulties by taking advantage of the current international economic crisis as well as Sandinista policy failures. Looking at Latin America's economic situation we can distinguish two different types and effects of crises, general and particular effects.

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<sup>83</sup> Walker, Nicaragua - The First Five Years", pp.77-78.

## 4.2.1 Nicaragua and the International Economic Crisis

### 4.2.1.1 *General Effects*

The most urgent present problem for the Latin American economies, within the general situation of economic dependence and marginalization is the financial crisis reflected in massive foreign debts coinciding with an increasing inability to accumulate capital. According to classical dependency theory, the marginalization of dependent economies is reproduced by the fact that the only way of achieving capital accumulation consists either in surplus-extraction from the social and economic margin within a dependent economy or in capital imports through private investment or foreign loans.

In a situation where both traditional ways of capital accumulation are no longer feasible, the social margin within peripheral societies is not only reproduced, but an ever increasing part of the former core within the periphery becomes marginalized. The outward dependency, however, does not disappear, since whatever capital is still generated has to be used for the repayment of debt. Economic literature suggests that this relatively recent development is due to simultaneous changes on the demand and the supply side<sup>84</sup>.

As reasons for the changes on the demand-side analysts name domestic policies or events real interest rates producing greater incentives to seek loans abroad. Such policies and events can essen-

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<sup>84</sup> Carlos Massad, "The External And The Financial Problems Of Latin America - Why the Debt Increased", *CEPAL Review*, No.20, August 1983 p.151.

tially be summarized in five different categories: the anti-inflation campaign and economic changes in the late 1970s, the link between financial and non-financial enterprises, the exchange policy of fixed interest rates for the dollar in an inflational economy, excessive public sector spendings and excessive private sector spendings.<sup>85</sup>

The reasons on the supply-side are characterized as follows: the impact of the oil price rises between 1973-1974 and 1978-1979 generating an enormous surplus (\$433 billion) on the accounts of the oil exporting countries. At the same time these countries were depositing these resources in the banking system, however, the oil-importing countries needed to finance their accounts, which had been unbalanced by the deficit. There were thus simultaneous increases in both the supply of funds in the international field and in the demand for them.

The consequences were manifold. While in 1973 about 80 per cent of Latin American debt came from institutions like the World Bank or the Inter-American Development Bank, now most of the loans are provided by private institutions for shorter periods at floating interest rates from 9 per cent to 10 per cent. resulting an extra expense of \$ 2 400 million for Latin America as a whole. Floating rates, however, have the side effect that they stimulate a rise of international interest-rates despite the fact that the core economies undergo a recession resulting in fewer imports from developing countries<sup>86</sup>. Thus, development countries are forced to increased interest payments despite a slackening economy. In addition, a proportionally lower interest rate in the core combined with a higher interest rate in the periphery has a negative effect on the terms of trade causing additional burden to the export sector, which is already suffering from declining import rates of core economies. A second consequence of large debt is a transfer of real resources to the exterior resulting in having fewer clothing, shoes, less food etc.. Thirdly, a high indebtedness imposes restrictions on domestic policies and it is only possible to apply those which cause the indicators of solvency in order to renew credits.

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<sup>85</sup> Ibid.

<sup>86</sup> Carlos Massad, "The External And The Financial Problems Of Latin America - Why the Debt Increased", *CEPAL review* No.20, August 1983 pp.151-156

The previous analysis reflects the situation up to 1981. From this year on additional aggravating factors increased the deterioration of the peripheral economies. 1982 was the third consecutive year of meager growth in the center resulting in decreasing buying-power and neo-protectionist tendencies, thus the volume of imports of primary commodities produced by the periphery continued to fall. In addition the indebtedness of LDCs reached unprecedented heights, so that with the beginning of 1981 more and more private lenders refused to provide new capital for the necessary debt-repayments. As a result, the net inflow of capital into Latin America seriously decreased by 28 per cent in the early 1980s<sup>87</sup> (For this section see TABLES 6 - 8.).

#### ***4.2.1.2 Particular Effects - Nicaragua's Economic Policy 1979-1981***

Besides the general crisis in Latin America, Nicaragua has been suffering from a series of other aggravating factors, due to dependency, the Somoza dictatorship, and the years of civil war. So far, I have already mentioned a number of effects caused by these factors. This section is meant to complete the picture of Nicaragua's economy when the Sandinista took over power.

The most aggravating problem for the Sandinistas was the severe indebtedness caused by the Somoza regime, which was likely to absorb all the money intended for national reconstruction. The war damages exceeded \$1.3 billion, the foreign debts amounted to \$1.5 billion<sup>88</sup>. U.S. studies of that time forecast that Nicaragua would need about \$800 million immediate emergency relief aid, plus additional \$200-\$250 million a year and, in fact, the Sandinista's initial policy was trying to raise

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<sup>87</sup> Enrique V. Iglesias, "Reflections On The Latin American Economy In 1982". *CEPAL Review* No.19, April 1983 pp.31-34.

<sup>88</sup> *New York Times*, August 26, 1979 p.IV.3.

capital abroad<sup>89</sup>. The Inter-American Development Bank lent about \$500 million dollar (\$200 for individual relief) for national reconstruction, the USA provided about \$8.8 relief assistance, a UN relief program was intended to contribute about \$16 million<sup>90</sup>. Finally, the Nicaraguan government turned to the Carter administration to request about \$100 million immediate financial aid from the Congress. Eventually, in June in 1980 the congress reluctantly approved \$75-80 million aid package for Nicaragua<sup>91</sup>

As already mentioned, the reconstruction process embarked on reforms in the public sector, creating new ministries and entities as well as nationalizing banks, insurance companies and foreign trade companies dealing with major export products. These measures increased the public sector's share of the gross domestic product (GDP) from 14 per cent before the revolution to approximately 37 per cent in 1980<sup>92</sup>. In 1979 aggregate production had fallen by 30 per cent, massive capital flight in 1978 and 1979 led to a reduction in real GNP of 7 per cent. The GDP level attained in 1979 was similar to that reached in 1972<sup>93</sup>. The government deficit, as result of an increase of public spendings, rose from 7 per cent of GDP in 1979 to 12 per cent of GDP in 1981.

A fixed exchange rate and the 'open character' of the Nicaraguan economy traditionally had kept the domestic inflation rate very close to that of the major trading partners. Through devaluation, however, the Nicaraguan currency pushed the domestic inflation level above external inflation causing an acceleration of consumer price increases in second quarter of 1979. The war effects caused the cost of living to raise at an average rate of 48 per cent during 1979<sup>94</sup>

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<sup>89</sup> *New York Times*, August 30, 1979 p.3

<sup>90</sup> *New York Times*, August 4, 1979 p.2/August 5, 1979 p.9/ September 14, 1979 p.24

<sup>91</sup> *New York Times*, February 23, 1980 p.2/March 2, 80 p.40/ March 6, 80 p.14/ May 20, 80 p.14/ May 25, 80 p.43/ June 6, 80 p.10/June 18, 80 p.7/July 4, 80 p.5

<sup>92</sup> Inter-American Development Bank, "Economic And Social Progress In Latin America - The External Sector: Nicaragua". *Inter-American Development Bank Report* (Washington, D.C.: IADB, 1982) p.291.

<sup>93</sup> *Ibid.*

<sup>94</sup> *Ibid.*

In 1978, 1980 and 1981 Nicaraguan's balance of payments registered overall deficits caused by capital outflows and the trade disequilibrium. In 1979, due to debt rescheduling, a bare surplus could be achieved. Nicaraguans net international reserves declined by \$297 million in 1980-81. The current account deficit deteriorated from 2 per cent of GDP to 21 per cent of GDP in 1981<sup>95</sup>. Nicaragua's disbursed external debt rose from \$969 million in 1978 to an estimated \$2,129 million by the end of 1981.

The policy adopted by the Sandinistas was designed to counter the economic crisis as well as to proceed with national reconstruction. A law enacted in 1979 temporarily suspended penalties for delinquent taxpayers reporting and paying 50 per cent of their liabilities. The Sandinista eventually went about reforming the tax-system, thus corporate tax was set a flat rate of 40 per cent, the maximal marginal rate of personal income tax schedule as well as the standard deduction were raised. Additional duties on Nicaragua's principal export products were introduced in 1980. In the latter part of 1981 a new series of measures were introduced, which included a 5 per cent across-the-board cut in Central Government expenditures for the rest of the year, an increase in consumption tax rates on imports of luxury goods, and a decrease of 10 per cent in direct subsidies<sup>96</sup>. A restraint fiscal policy combined with investment laws designed to attract foreign investment reflected a change in governmental policies at the end of 1981.

In order to satisfy the demand for credit by the private sector and to finance the global deficit of the public sector including APP enterprises, the authorities suspended the application of legal reserve requirements, and during the early part of 1981, credit ceilings were imposed on all financial institutions and loan categories. As a result, there was an increase in credit to agricultural enterprises and to industry, whereas credit to sectors of lower priority was strictly abandoned. In June 1981, legal reserve requirements were reestablished and a 16 per cent interest rate ceiling was set on time

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<sup>95</sup> Inter-American Development Bank, "Economic And Social Progress In Latin America - The External Sector: Nicaragua". *Inter-American Development Bank Report* (Washington, D.C.: IADB, 1982) pp.293-295.

<sup>96</sup> Ibid.

deposits, which stimulated the growth of credit to an estimated 30 per cent<sup>97</sup>. Exporters also received foreign exchange certificates issued by the Central Bank, that could be traded at the full market rate (1982: 28 cordobas/dollar as opposed to the official rate of 10 cordobas/dollar). Furthermore, in order to protect exporters from the uncertainties of fluctuating international prices, a new, extensively revised, export tax structure was introduced, reducing or eliminating taxes entirely when world prices are low. This measure was combined with new licensing procedures applicable to all new import-requests<sup>98</sup>

It is important to notice that in 1981 two important developments occur. The Nicaraguan economy started recovering, secondly the Sandinista policy becomes increasingly producer/exporter friendly - the Sandinistas also provided and compensation to the former owners of nationalized industries and banks in the form of governmental interest-bearing bonds<sup>99</sup>. These events coincide with a change of administration in the USA leading to series of measures against Nicaragua, the effect of which will have to be discussed in the following part of the chapter.

It is difficult to evaluate whether the change of Nicaragua's economic policy was due to purely economic pressure, in anticipation of a new US policy or part of an unwritten agreement between government and the private sector to secure bourgeois cooperation at a time when, firstly, the expansion of health and social system was initiated combined with the establishment of various political reforms that were heavily criticized by middle-class and private sector. Reforms such as the literacy campaign, the expansion of state farming, rural cooperatives or postponement of national elections were heavily criticized by the middle-class as further indication for the 'Marxist orientation' of the Sandinistas.

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<sup>97</sup> Inter-American Development Bank, "Economic And Social Progress In Latin America - The External Sector: Nicaragua". *Inter-American Development Bank Report* (IADB: Washington 1982) p.292-295.

<sup>98</sup> Ibid.

<sup>99</sup> Zwick - National Communism, p.197

The interesting aspect about Nicaragua's development in late 1981 is, however, that the economy showed a marked improvement. Inflation rate was decreasing due to import restriction, Nicaragua's large foreign debt commitments improved greatly, since very few loans on commercial terms were arranged and the negative growth rates of GNP declined sharply<sup>100</sup>. All economic forecasts of the time portrayed Nicaragua's economic future in a very positive light and agreed that the country, at the beginning of 1982, was entering a phase of profound economic recovery, which was to be the last for the following 5 years<sup>101</sup> (For this section see TABLE 9).

#### 4.2.2 Conceptual Problems

The Mexican economist Jose Luis Coraggio concludes in a major study on Nicaragua's economic performance during the first two years of the revolution optimistically<sup>102</sup>. The maintenance of a structure where the Nicaraguan economy interfaces with the world capitalist market implies....

".....that tendencies toward reproducing capitalist relations within the economy will operate, the following question is posed: Is it possible to achieve the subordinated reproduction of private capital when at the same time its bearers are alienated as a political class? In the Sandinista People's Revolution's declared project and effective practice, objective conditions are programmed so that private capital may reproduce itself, maintaining the ownership of the means of production, producing and distributing commodities, and obtaining profits that depend on the general situation of the economy but also on their competitive ability."<sup>103</sup>

As he correctly observes, private capital in Nicaragua is able to reproduce, but the private economy occurs within the scope of centrally controlled planning and co-ordination. The Sandinista form of 'mixed economy' does neither mean the co-existence of two more or less separate forms of

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<sup>100</sup> Inter-American Development Bank, "Economic And Social Progress In Latin America - The External Sector: Nicaragua". *Inter-American Development Bank Report* (IADB: Washington 1982) p.294-95.

<sup>101</sup> Ibid.

<sup>102</sup> For a complete survey see: Michael E. Conroy "Economic Legacy and Policies: Performance and Critique". In *Nicaragua the First Five Years*, ed. Thomas W. Walker, pp.219-245.

<sup>103</sup> Jose Luis Coraggio, *Nicaragua - Revolution and Democracy*, pp.45-46

economy, nor something which is often referred to as *social market economy*<sup>104</sup>. In the Nicaraguan form of 'mixed economy' the private and the state sector are closely tied together and constantly interface with each other. The best example of this vertical division of the economy is the state-control of the entire export/import sector as well as the centrally planned national transportation and distribution of products, including those produced by the private sector. This combination -- as opposed to a horizontal or parallel division where private and state enterprises are kept more or less separate -- was intended to break the internal dependency structures and secure economic hegemony for the Sandinistas. The fact is, however, that this did not quite work out the way the Sandinistas had planned. Through this close interaction, on one hand, the slow and bureaucratic state-sector constantly hampers the private economy, preventing it from becoming the *growth factor*, the Sandinistas had planned it to be, on the other hand the socially oriented state- economy constantly comes under defense by the more aggressive and dynamic private sector, so that the Sandinistas ultimately resort to authoritarian measures in order maintain economic hegemony.

A further problem is linked to the centralized planning system, which is mainly based upon the classical socialist model. E. V. FitzGerald, in his analysis of peripheral socialist economies, points out that, since peripheral socialist economies are not only underdeveloped but do also have to rely on foreign trade as central element in their growth strategy, with exports being a major component of the primary sector and providing foreign exchange for the import of production inputs and equipment, a problem of the balance between investment and consumption occurs<sup>105</sup>. This not only one of balance between traditional food sector and state economy, but also one between production for export and for domestic use.

"In varying degrees, these characteristics of internal dualism and external dependency are common to countries adopting a socialist strategy, such as Cuba, Nicaragua, Algeria, Angola....." <sup>106</sup>

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<sup>104</sup> Social Market Economy, characterizing a system popular in some European countries such as Sweden, Denmark or Austria, where most large-scale enterprises and major banks are nationalized, the prices for most basic products are subjected to governmental regulation, but otherwise the economy functions like market economy.

<sup>105</sup> E. V. K. FitzGerald, "The Problem of Balance In the Peripheral Socialist Economy: A Conceptual Note" *World Development* Vol.13, No.1, Jan.85 pp.5-13

<sup>106</sup> Ibid. p.5

FitzGerald argues that this unbalance is a result of the fact that peripheral socialist economies are fundamentally distinct from the classical socialist semi-peripheral economies upon which the planning literature is based. Essentially this derives from the fact that the constraint on growth is foreign exchange and not the supply of labor or wage goods as such, and depression of popular consumption does not in fact contribute much to the rate of growth. He further concludes that even under ideal conditions, the goal of achieving a real growth is very difficult.

### **4.2.3 The Troubled Land-Reform**

Besides a number of apparent policy failures the Sandinista's conception of economy suffers from a series of problems on a more conceptual level, an example for this is the country's troubled agrarian reform-project.

The decision in favor of a mixed economic model, as well as the basic acceptance of the country's position within the capitalist world market, by eliminating the option of a closed economy, does not only result in continued penetration of the various spheres of Nicaraguan society by foreign capital, transforming relations into mercantile ones, but it also results in a competition against the latifundia economies of Nicaragua's neighbors. This means striving for internal changes while externally playing the game after the rules of the international market. Thus, the re-distribution of land to a vast number of small peasants, with each of them obtaining a relatively small parcel, led to sharp a decrease in agricultural production.

Especially the average yield per acre dropped significantly, due to the fact that a division of the same overall amount of land among a greater number of farmers had strongly negative effects on the

efficiency-production ratio<sup>107</sup>. The rule 'the greater the amount of agricultural land, the higher the efficiency rate, and thus, the higher the production and the lower the price-level', puts the Sandinistas in an awkward dilemma.

Several attempts to improve efficiency by combining individually owned plots of land have failed to produce the success the Sandinistas had hoped for. The creation of Nicaraguan state-farms has often resulted in an disproportional growth of bureaucracy affecting the production/price ratio. Co-operatives, in return, were more efficient, but, besides the fact that their function is much broader than purely economic, their establishment tends to be very time-consuming and complicated. Due to increasing Contra activity the foundation of new cooperatives has nearly come to a halt in the recent two years<sup>108</sup>.

Thus the reliance on private latifundias has not only been unbroken, but their relative importance for the Nicaraguan economy is, in fact, growing. The Sandinistas do not seem to have found a satisfactory solution to this situation, contradicting crucial parts of their model.

The agrarian reform law and the various policy measures introduced under this law (as described in Chapter 1) may show the willingness and intention of the Sandinistas to move ahead with a profound land-redistribution for the benefit of the poorer segments of the rural population, but its practice also demonstrates the economic and political limits of such reform-projects within the scope of a mixed economy. In the Nicaraguan type of mixed economy large-scale agricultural production and less efficient small-scale production are forced to compete with each other. Thus, the competition a nationally planned socialist economy faces as a whole when it becomes economically active on the world market is here transferred into the national Nicaraguan market. The less efficient small holders are bound to loose this competition and thus, the government interferes by purchasing the yields of small farms at a guaranteed price, which, however, barely covers the expenses of

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<sup>107</sup> Collins - What Difference Would a Revolution Make, pp.51-67

<sup>108</sup> Collins - What Difference Would a Revolution Make, pp.51-67

the small farmers, but which is still too high to be passed on to national and international consumers. In order to maintain this artificially low price level for small farmers, the government needs to buy and export large amounts of high efficiency/low cost agricultural production from the large-holders. This system creates the undesired effect that every measure in favor of the small-holders such as social improvements or higher prices for their production cements the importance of the large-holders, since without their production most of the policy could not be financed. On the other hand the prices paid by the government are often considered too low by the small-holders, so that many decide to sell their products illegally on the black market, since the prices there are much higher. This again causes supply shortages in urban areas and hits particularly those poorer social groups that can not afford the higher black market prices.

#### **4.2.4 The Sandinistas' Campaign Against the Black Market.**

The Sandinista reaction to this problem has been very blunt and in a police-state styled action the government started harassing thousands of small private vendors and peddlers. The president of the National Assembly Carlos Nunez declared in a major speech in 1985 "to wage on speculation" resulting in a governmental campaign where in distributed leaflets and posted slogans peddlers and small shopkeepers are characterized as 'profiteers', 'speculators' and 'hoarders'.<sup>109</sup> Eduardo Umos, a spokesman for the Ministry of Internal Commerce justified the measures by declaring "We are facing military aggression from outside and economic aggression from inside...(therefore)...the combat against speculators has begun"<sup>110</sup> A major target in this campaign is the large Managuan market *Mercado Oriental* with nearly 9000 vendors often the only source of food, clothing and household goods for the capital's 900,000 people. By turning peddlers and shopkeepers into the

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<sup>109</sup> *New York Times*, February 12, 1985, p.8.

<sup>110</sup> *Ibid.*

scapegoats for the failure of the governmental economic policy the Sandinistas fail to realize the unpopularity of their measures. Not only has this market been a popular 'Managuan institution' for over 50 years, it often is the only place where certain goods ranging from toothpaste to light bulbs can be purchased and the high prices there are in many cases simply the result of the fact that the shopkeepers have to purchase their goods at higher rates either on the black market or abroad, since the Government is unable to provide the merchandise. When Mr. Ulmos declares that "the shopkeepers will have to adjust to the orientation handed down by the Government"<sup>111</sup> then the Sandinista's commitment to a 'mixed type of economy' becomes questionable.

The irony and shortsightedness of this policy, whose legitimization is based on the 1985 'Consumer Defense Law', becomes obvious if one considers that large-scale private production, private latifundias and even multinational companies are hardly affected by these measures, while thousands of small family enterprises are facing the confiscation of their licenses. Most of those small family enterprises where the children sell fruits and pastry in public buses, while the parents run a small shop at one of the various markets are self-supporters and would then have to be subsidized by the bankrupt social funds of the government.

The ongoing militarization and bureaucratization of the Sandinist economic policy is increasingly directed against targets within the domestic economic structure, such as small shopkeepers and family-enterprises. A further target are the thousands of squatters, that abandoned their small plots, mostly in the war-torn provinces, and moved to Managua, increasing the its population from 600,000 to 900,000 within five years. The government has spent over \$150 million on housing programs and has managed to provide accommodations for over 100,000 people but the current housing deficit still amounts to be 300,000 units<sup>112</sup>. The overall economic situation and the Sandinista austerity budget has slashed housing expenditures by a third, to \$40 million and the

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<sup>111</sup> *New York Times*, February 12, 1985, p.8.

<sup>112</sup> *New York Times*, February 18, 1985, p.6.

Government is now considering to force many squatters either to leave the 'illegally' squatted areas in the outskirts of Managua or at least to stop further migration to Managua<sup>113</sup>.

#### 4.2.5 Summary

A main feature of the Sandinista system is the commitment to maintain a mixed economy and the policies implemented from 1979 to 1982 seemed to underscore this intention. During this period various social and economic reform-projects such as the land-reform (as described in Chapter 1) were initially quite successful, since, such as in the case of the agrarian reforms, the actual process of redistribution met little resistance. The problem only occurred after the first wave of distribution had taken place, when the overall production level began to drop.

Considering the relative success of this policy during the first 3 years after the revolution, one must also bear in mind that the Nicaraguan economy was, for a number of reasons, in the phase of recovery<sup>114</sup>. Only after the overall economic deterioration had set in the Sandinistas resorted increasingly to an authoritarian policy, lacking inventiveness and the courage to seek alternatives - so for instance, an international agrarian commission had suggested to diversify the Nicaraguan food production by introducing products like peanuts or by expanding the cotton production in order to achieve a higher profit margin and avoid regional competition. The drop in production after the land-reform was foreseeable, thus measures designed to increase the average yields per square meter would have been necessary. A proposed co-operation project with Mexico to use new kinds of seeds as well as to obtain fertilizers was delayed by the government bureaucracy for two years, so that

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<sup>113</sup> *Ibid.*

<sup>114</sup> The country managed to prolong debt-repayments, it received heavy international financial support, the US sanctions were not felt before summer 1982, the Contra activity was still economically insignificant and the world economy was generally in a good condition

when the government finally decided to boost fertilizer imports, it had to resort to costly US products, which were soon to be subjected to Washington's sanctions<sup>115</sup>.

The economic policy of the Sandinistas offers a whole variety of possible targets that enable the US to apply pressure. Nicaragua's continued reliance on international funding agencies such as IMF, World Bank and IADB has put Washington in the position of hitting the Nicaraguan economy by trying to prevent Managua from further access to these institutions. The lack of product diversification enabled Washington to impose sanctions specifically against certain Nicaraguan export-products such as the 90 per cent reduction of the sugar quota<sup>116</sup>. Furthermore it also increases the disadvantageous position of Nicaragua within the regional economic competition, since El Salvador, Honduras, Costa Rica and Panama do not only receive massive economic and financial aid enabling them to export at lower costs, but they have also increasing access to the US market. Besides, there is little point in trying to diversify exports in terms of getting access to new markets, while simultaneously maintaining the same types of export-products, that were originally designed for the US market.

The fact that the Sandinista government often resorts to authoritarian measures when it feels that the private sector is undermining the system, does not only reduce their credibility to keep a mixed economy, but it also aids US propaganda that the Sandinistas will eventually destroy the entire private sector.

The rigid price policy in order to provide basic foodstuff at affordable prices may be socially understandable, but, presently, it produces solely negative effects. Many farmers can only survive if they sell at least parts of their yields on the black market. If products are purchased by the government the bureaucratic system of product distribution then causes the products to become again more

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<sup>115</sup> c.f. Amaru Barahona Portocarrero, "Estudio sobre la Historia Contemporanea de Nicaragua", *Avances de Investigacion* No.24 (San Jose, Costa Rica: Instituto de Investigaciones Sociales, Universidad de Costa Rica, 1977) pp.73-86.

<sup>116</sup> See Chapter: "Nicaragua's Economic Strangulation".

expensive, so that only governmental subsidies can keep the price artificially low. This in return, burdens the budget, so that fewer goods can be imported. The inefficient product distribution system causes additional supply-shortages, so that also the poor people ultimately have to buy goods at higher rates on the private market or spend much time in empty state supermarkets lining up for food or other products<sup>117</sup>. The supply shortages also upset the middle-class and the private sector, since the former can not satisfy their 'demand' for (mainly foreign) consumer goods and luxury items', and the latter does not obtain the spare parts, machinery, etc. to keep its businesses going<sup>118</sup>. The already existing systemic difficulties in providing supplies of food and industrial products make Nicaragua particularly vulnerable to US embargo measures, aggravating the situation to an unbearable extent. The food shortage is additionally enhanced by increasing Contra activities designed to destroy farms, co-operatives, transportation facilities, to sabotage harvests, equipment etc.

By far the worst economic problems are caused by the increasing military build-up, not only by draining off human and financial resources but also by creating an enormous labor crisis. So, for instance, in 1983-84 the cotton fell to the ground unharvested so that nearly one quarter of the entire harvest was lost, the situation for coffee or soybeans is similar in all these cases Nicaragua was lucky to have had good years and thousands of foreign volunteers, who harvested nearly a quarter of the entire cotton-yields. The further reason for the tremendous labor-shortage is, that, the foreign workers from El Salvador and Honduras that used to cross the border in order to aid with the harvest, shun Nicaragua since they consider work there dangerous and Nicaraguan payments in *cordobas* worthless, secondly, the defense mobilization has taken thousands of workers away from the fields. This problem becomes aggravated by the Contra threat, since many people refuse to work in the war-zones, respectively the higher the Contra activity in an area, the more

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<sup>117</sup> c.f. *Forbes*, August 25, 1986, p.76

<sup>118</sup> This may sound unfair, because compared to the poverty of the average population these groups are still much better off, but since the Sandinistas have claimed to maintain a semi-market economic structure the 'price' of the middle-class for its co-operation was foreseeable.

soldier get drafted, so that one way or the other a substantial part of the crops are doomed to perish unharvested<sup>119</sup>

The previous examples are only an illustrations of much of the incompetence and shortsightedness of the Sandinista economic policy. Looking at the policy as a whole, one gets the impression that it lacks a coherent, coordinated strategy, so that many measures seem to be more of a trial and error character, than purposeful planning. At the top or conceptual level, the Sandinistas determine the overall goals and direction of the policy, at the very bottom level the single ministries and planning commissions then start a variety of programs and initiatives, each of them with best intentions and some of them are by itself quite successful, but due to lack of co-ordination and the absence of a clear long-term implementation strategy at the middle level, many of these single programs are in sum contradictory, inefficient and aimed at short-term goals. "Nicaraguan economic policy seems to be more driven than planned and directed, the Sandinistas *react* rather than act, and most of their economic programs eventually degenerate into filling loop-holes and fixing problems that arise out of unexpected results of this policy <sup>120</sup>" .

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<sup>119</sup> Collins, What Difference would a Revolution Make, p.175)

<sup>120</sup> Alfredo Arguillo, economist at the Managuan University UCA. See: "Una Propuasta Para Una Reforma Economica", *Envio* 54, (Managua: Instituto Historico Centroamericano, January 1986)

# *The US Strategy To Overthrow The Sandinista System*

When is dealing with Washington's Nicaragua policy that I am well aware there are many diverse and varied,if not to say chaotic attitudes towards Nicaragua in the United States. I also recognize that there are not only numerous small private and religious organizations that try to raise funds for development projects and that provide support and aid for the Nicaraguan revolution, and this support reaches far into the political establishment. Furthermore, there are official opinion polls that suggest that at least more than half of the people in the US are currently opposed to aiding the Contras. On the other hand, there is the policy of the Reagan administration which is designed to overthrow the Sandinista government. This administration is not simply an isolated opponent, but it receives massive political and financial support from conservative business circles. In this position the policy of the Reagan administration presents the greatest external threat to the Sandinista political, social and economic system.

In 1980, a group of conservative university-professors and former governmental officials issued a report designed to provide policy guide-lines for future US policies towards Latin America. The

so called 'Santa Fe Paper' edited by the Council for Inter American Security<sup>121</sup> anticipates much of what barely one year later was to become the US official US policy<sup>122</sup>. The report called for a redefinition of a policy which under Carter "resembled a pathfinder without an azimuth"<sup>123</sup>, in order to counter the a political development which is described by the Santa Fe Committee as follows:

"The United States is being shoved aside in the Caribbean and Central America by a sophisticated, but brutal, extracontinental super-power manipulating client attacks Caribbean rim and basin is spotted with Soviet surrogates and ringed with socialist states...The United States is reaping the consequences of two decades of neglect, short-sightedness and self-deception. Now, the Carter Administration faces a Soviet Union entrenched in force in the Caribbean and a possible Marxist and pro-Cuban oriented Central America."<sup>124</sup>

The foundation of this kind of interpretation of political processes in Latin America is entirely based on a *Weltanschauung* dominated by East-West conflict, demanding that any kind of policy regarding third nations has to be subordinated to this perspective. By stating "the Americas are under attack" and "Containment of the Soviet Union is not enough.... detente is dead"<sup>125</sup> the complex political issue of Central America is reduced to simplistic 'black and white terms', failing to understand the subtleties and the depth of the problems involved. Obsession with the 'threat of Communism in Latin America', as one of the guideline of Reagan's Latin America policy, is reflected on numerous accounts in the Santa Fe Paper. Thus policy-strategies suggested there, such as: a) increased support for 'moderately repressive pro-Western dictatorships', b) low-intensity warfare against 'communist dictatorships in the region', c) strengthening the economic ties between the US and Latin America by 'applying productive capitalism', d) approaching pro-Western dictatorships by showing 'political and ethical realism', and e) as well as overt military threat to countries that would not comply and prefer to remain a 'radical element' in the area, were to become practice barely two years later.

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<sup>121</sup> "A New Inter-American Policy for the Eighties", *Council for Inter American Security*, ed. by the Committee of Santa Fe, L.Francis, Roger Fontaine, David G. Jordan, Lt. General Gordon Summer, Lewis Tambs (Washington, D.C.: Council for Inter American Security, 1980)

<sup>122</sup> For an evaluation of this report see the following sources: *Foreign Affairs*, February 1981, *Miami Herald*, January 4, *Wall Street Journal*, April 1981, *New York Times*, February 13, 1981

<sup>123</sup> Santa Fe Paper, p.iii.

<sup>124</sup> Santa Fe Paper pp. 5-7.

<sup>125</sup> Santa Fe Paper, p.1., p.3.



## 5.0 US Supportive Policy Measures

One can essentially divide the US policy in economic, military and supportive-policy components. I chose this division in order to demonstrate that besides economic strangulation as well as covert and overt military pressure, a series of additional policy measures were applied in order to support the former two. There are, of course, no clear-cut boundaries between these policies, for example supportive policy also involves military-pressure as well as economic measures. But the point is, however, that there are three major parallel strategies, where many aspects overlap, but which are nevertheless clearly identifiable and which necessitate each other in order that each of them can be successful. All three, supportive policy measures, economic and military policy, are part of a larger 'umbrella strategy' in order to maintain military, economic and political hegemony in Central America. Nicaragua with a regime and a political system, least controllable by the US, presents a threat to this US compliance strategy and all measures aimed at the destruction of the Nicaraguan system are a reflection of the previously mentioned umbrella strategy and its three sub-components<sup>126</sup>. This was also publicly admitted, when President Reagan declared in a press

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<sup>126</sup> c.f. Karl Bergman, *Under the Big Stick: Nicaragua and the United States since 1948* (Boston, MA.: South End Press, 1986) pp.275-302. See also: Bradford E. Burns, *At War in Nicaragua; The Reagan Doctrine and the Politics of Nostalgia* (Washington, D.C.: Harper & Row, 1987) pp.1-13, pp.80-85, pp.120-128.

conference in 1985 that his objective is to "remove the structure of government in Nicaragua, which is a totalitarian, brutal, cruel regime"<sup>127</sup>.

The political and economic system of the New Nicaragua contains, as pointed out in the previous chapter, a number of system-embodied problems and contradictions and in addition, like other Latin American countries Nicaragua is suffering from a major economic crisis, thus, the US strategy is designed to increase and aggravate already existing system-problems and economic difficulties. The underlying concept is to destroy the Nicaraguan system from within, by destroying the social progress and by further discouraging the Nicaraguan middle-class and private sector from co-operating with the Sandinistas. Washington seeks the collapse of the Nicaraguan system due to internal malfunctioning in order to demonstrate publicly that the 'Sandinista-path' does therefore not have a possible model function for other countries in the region.

The 'supportive policy measures' are in sum, probably, equally important as military and economic pressure, particularly since the latter two would be far less effective without them. The main elements of Washington's 'supportive policy' are: a) the pacification and stabilization program for Nicaragua's neighbor countries, b) the ongoing rhetoric strategy and public relations campaign designed to isolate Nicaragua and label it negatively, and c) the successful sabotage of the Contadora peace process.

## ***5.1 Stabilization Policy***

"Our economy is like a junkie, waiting for the next hit from Uncle Sam": (El Salvadorian Business-

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<sup>127</sup> *New York Times*, February 22, 1985, p.1.

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A major factor in the US strategy towards Central America is a massive political, economic and military pacification- stabilization program in order to prevent further collapses of regimes in that area. This program, essentially, consists of three components:

- pacification: rural development, civic action, and political programs designed to pacify rebellious populations and build popular support for governments that the United States support.
- Private Sector Support: programs that encourage increased U.S. investment and trade and boost local business community while building strong free-enterprise pressure groups.
- Stabilization: attempts to prop up client governments by injecting large sums of dollars into their economies.<sup>129</sup>

The US-government institution responsible for implementing these 'aid' programs is the Agency for International Development (AID). In order to coordinate private and official projects AID created a special Private Enterprise Bureau (PRE), a step that was soon imitated by the US-peace corp and the United States Information Agency<sup>130</sup>. Parallel to AID a regional institution called the Central America Development Organization (CADO) was set up in order to channel economic aid to the business community. The most powerful private group in support of US-Central America programs is the so called Americas Society, which incorporates a number of high-powered business associates that represent corporations with investments in Latin America and the Caribbean and whose chairman is David Rockefeller. Rockefeller also helped form Caribbean/ Central America Action (CCAA) to promote increased US-investment and government aid in the region<sup>131</sup>.

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<sup>128</sup> Tom Barry, "Rain of Dollars; US Economic Intervention in Central America", (Albuquerque, N.M.: Hemispheric Education Resource Center, 1986) p.1.

<sup>129</sup> For details see: Barry - Rain of Dollars, Intervention in Central America, p.1.

<sup>130</sup> Ibid., p.6.

<sup>131</sup> Barry - Rain of Dollars, pp.6-7.

In the 1960s and 1970s AID distributed its financial support primarily through Development Assistance (DA) projects, most of which were designed to improve the socioeconomic conditions of the disadvantaged population by providing education, sanitation systems, and technical assistance. AID still funds DA projects, but development now takes a secondary position to stabilization. Of each dollar in economic aid allocated for Central America in 1985, 75.5 cents went for stabilization<sup>132</sup>. This money, over \$2 billion from, 1981 through 1985, reflects the 'immediate priority' of political stabilization of regimes from Guatemala City to Panama City.

As we can see on TABLE 10., Nicaragua has not only been totally excluded from stabilization aid to Central America, but all its neighbor-countries haven been recipients of particularly large portions of stabilization aid, including Washington's Central American 'model democracy' Costa Rica. Similar results show the figures for 'Direct Stabilization Funding by US Government' during the first half of the 1980s (See TABLE 11.). ESF, AID's main funding instrument, has become a very important tool in providing assistance to countries of particular security and importance, AID says:

"The primary objective of ESF is to support US economic, political, and security interests and to advance US foreign policy objectives. This Fund provides the resources needed to stem the spread of economic and political disruption and to help friends and allies in dealing with threats to their security and independence...."<sup>133</sup>

The majority of assistance from ESF arrives in the form of cash transfers, which are intended to help close balance-of- payment gaps for countries of great strategic importance like El Salvador and Costa Rica (of which over one third of imports are accounted for ESF cash-transfers), and to help narrow balance-of- payment gaps for countries of lesser strategic value such as Panama<sup>134</sup>.

The double strategy is clear while Washington has undertaken every effort to cut off aid programs for Nicaragua and to prevent its access to international funding agencies such as IADB, World Bank

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<sup>132</sup> Ibid., p.23.

<sup>133</sup> AID, *Congressional Presentation Fiscal Year 1986, Main Volume*, p.94/See also: Barry, *Rain of Dollars* p.24.

<sup>134</sup> Barry - *Rain of Dollars*, p.24.

or IMF<sup>135</sup>, Washington's allies in the region and particularly Nicaragua's direct neighbors Honduras, Costa Rica and El Salvador receive massive stabilization aid. This does not only directly affect the regional economies by injecting financial aid into Nicaragua's 'rivals' respectively by depriving Nicaragua of vital foreign currency, but it, in the long run, it does also change the economic competitiveness of the region to the benefit of Nicaragua's neighbors.

## *5.2 Washington's War of Words and Public Relations against Managua*

<sup>136</sup> "How is the world ruled and led to war? Diplomats lie to journalists and they believe those lies when they see them in print." (Karl Kraus, Vienna 1919)

A further important strategy of the Reagan-administration in dealing with the Sandinistas was a public-relations campaign designed to achieve three goals:

- First, to muzzle and pacify criticism within the USA, especially opponents to the Reagan government, including Congress, media, political action groups etc..
- Second, to isolate the Sandinista government politically in the region as well as to label Nicaragua as 'anti-democratic' and 'terrorist' in the eyes of the world.

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<sup>135</sup> See chapter on: "Nicaragua's Economic Strangulation"

<sup>136</sup> Egon Matzner, *Karl Kraus, Gesammelte Werke* (Vienna: Bertelsmann, 1972) p.117.

- Third, to alienate the Nicaraguan middle-class and private sector further from the Nicaraguan model and encourage them to terminate cooperation with the government.

In February 1981 the State Department produced a White Paper that "sought to demonstrate that Nicaragua was engaged in aggression against El Salvador as part of its service in a Kremlin-directed conspiracy to take over the world"<sup>137</sup>. Simultaneously Nicaragua's neighbor states were portrayed as human rights champions whose way to democracy was endangered by communist insurgents. While under the Carter administration US officials admitted that, for instance, in El Salvador security forces were responsible for 90 per cent of atrocities committed against the civil population, under Reagan these events were put down to the activities of "uncontrollable right-wing bands"<sup>138</sup>.

In an analysis of US media in relationship to the US-policy towards Nicaragua, Noam Chomsky concluded that....

"..willful misinformation or ignorance - or more generally in my view,...the normal stance of subordination to the state propaganda system .."<sup>139</sup>

the prevailing characteristic of most of North American mainstream press. Chomsky accuses the media not only of applying double standards when comparing Nicaragua with its neighbors, and of slanted coverage but also of accepting the State Department's "limits of debate", so that the acceptance of the official view of the problem must ultimately lead to the same conclusion concerning a solution of it<sup>140</sup>.

More general publicity than the White Paper, which was mainly intended as 'media guide and background information', has been caused by an number of speeches, interviews and press conferences of top officials of the Reagan administration or the President himself. After the new

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<sup>137</sup> Noam Chomsky, Morris Morley, James Petras, "The Reagan Administration And Nicaragua: How Washington Constructs Its Case For Counterrevolution in Central America", *Institute for Media Analysis: Monograph Series: No.1* (Washington, D.C. Inst.for Media Analysis, 1987) 1 p.1.

<sup>138</sup> Ibid.

<sup>139</sup> Chomsky - Reagan Administration and Nicaragua, p.1.

<sup>140</sup> Ibid. p.29.

Nicaraguan government had already been denounced as Marxist by the Republican Party Platform during the electoral campaign of 1980, Secretary of State Haig reiterates these allegations in a speech in March 1981 by portraying Nicaragua as part of a 'four-phased' operation of the Soviet Union. In November he claims that there is "mounting evidence in Nicaragua of the totalitarian character of the Sandinista regime".<sup>141</sup> More drastic in his descriptions was President Reagan himself by trying to label the Nicaraguan government with every negative cliché that seemed to be in fashion at a particular time, he characterized the Sandinistas as "exporter of terrorism, drug-traffickers, illegal, undemocratic, repressive, an international menace, as cruel totalitarians without a decent leg to stand on"<sup>142</sup>. In the official Department of State Bulletin president Reagan is cited on "The Real Nature of the Sandinista Regime":

"A number of the Sandinistas were trained in camps supported by Cuba, the Soviet bloc and the PLO, it is important to note that Cuba, the Sandinistas, the Salvadorian Communists, and the PLO have all worked together for many years. In 1978, the Sandinistas and the elements of the PLO as joined in a 'declaration of war' against Israel."<sup>143</sup>

It does not seem to be much of a coincidence that the Sandinistas were accused of supporting international terrorism, just at a time when the US public was particularly sensitive towards this issue. Other senior Reagan officials like William Casey<sup>144</sup> or former US-ambassador to the UN, Jean Kirkpatrick, do not fall short of their president and thus, she writes in the August-edition of the Department of State Bulletin:

"They (the Sandinistas) have based their power not on elections but on internal controls and militarization and on Cuban and Soviet support. They have systematically destroyed the broad national coalition that overthrew Somoza. They have harassed political critics, the media, business and labor, ethnic minorities even the Catholic Church. They have built a military establishment many

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<sup>141</sup> For details see: *New York Times*, November 16, 1980, p.17. *New York Times*, March 19, 1981, p.1. *New York Times*, November 14, 1981, p.4.

<sup>142</sup> Bradford E. Burns, *At War In Nicaragua; The Reagan Doctrine and the Politics of Nostalgia*, (New York N.Y.: Harper & Row, 1987) pp.34-48.

<sup>143</sup> *Department of State Bulletin*, June 1984, p.23.

<sup>144</sup> *US News & World Report*, "What's Behind Reagan Strategy In Nicaragua; Interview With William Casey", April 23, 1984, pp.27-29.

times the size of Somoza's National Guard....the Sandinistas have used everyone from Arturo Cruz to the Pope."<sup>145</sup>

".... we do not think it is moral to leave small countries and helpless people defenseless against conquest by violent minorities which are armed and trained by remote dictatorships".<sup>146</sup>

The Reagan administration did it not only leave it at rethoric declarations, in many instances spectacular steps followed that were designed to cause word-wide media attention. Such was the case when after 3 US diplomates were accused of subversive activities by Nicaraguan authorities, the US ordered the expulsion of 21 Nicaraguan consular officials and shut down all 6 Nicaraguan consulates in the US<sup>147</sup>. On other occasions Washington pressured its allies and particularly the economically vulnerable Latin American countries to back the US policy concerning Nicaragua<sup>148</sup>.

One of the internationally most 'celebrated publications' by the Reagan administration, which also caught substantial media- attention and that was widely considered a serious effort to find a new approach to a US policy towards Latin America, was the so called Kissinger Report.

Looking back it is surprising, how positive even previously skeptical international media responded to the announcement of the Reagan administration to establish a bipartisan commission under the former security advisor and Secretary of State Kissinger, who had never made a secret of his political attitude towards Central America and which was characterized in the New York Times in the following way:

"Mr. Kissinger has given a broad hint of his own attitude. '(quoting Kissinger) it escapes me', he said 'why we have to apply the Brezhnev Doctrine in Central America and assert that any Communist government that has established itself can never be changed'.<sup>149</sup>

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<sup>145</sup> *Department of State Bulletin*, August 1984 p.80.

<sup>146</sup> *Ibid.*, p.60.

<sup>147</sup> *New York Times*, June 8, 1983, p.1.

<sup>148</sup> In April, 1986, for instance a senior Honduran official admitted that the government never felt threatened by the Nicaraguan border raid and sought to resist pressure from the Reagan administration. *New York Times*, April 3, 1986 p.1./See also: *New York Times*, December 6, 1982, p.1.

<sup>149</sup> *New York Times*, August 2, 1983, p.8.

The National Review, for example, first expressed serious doubts about the qualification of the commission members by stating:

"The members of the commission were widely known mainly for their party affiliation, rather than for their wisdom about the region. Henry Kissinger publicly congratulated the President of the United States on appointing as chairman of the commission the only man in the United States who knew nothing about Central America, and in the early days expressed private doubt that the commission had the cohesion or the competence to arrive at any recommendation useful to anybody".<sup>150</sup>

But then the paper went on to praise the findings of the commission, which had "come together on the safety of the Republic. That was contribution enough"<sup>151</sup>. By recognizing also social injustice and economic misery as causes for political unrest, the report was clearly an improvement over the Santa Fe Report or the White Paper, it also granted the Sandinistas some success in improving the social conditions and suggested humanitarian aid and infrastructure development, but essentially the report produced little new that had not already been part of the previous US policy. In a chapter on the "Growth of Communist Insurgence" again a 'Communist conspiracy initiated by Cuba and Nicaragua' was made responsible for the spread of liberation-movements in the region<sup>152</sup>. Among the policy recommendations the report boldly suggested "An Emergency Stabilization Program" -- despite the one already in progress -- including elements such as:<sup>153</sup>

"We encourage the greatest possible involvement of the private sector in the stabilization effort. We recommend that the United States actively addresses the external debt problems of the region. We recommend that the United States provide an immediate increase in bilateral economic assistance"<sup>154</sup>

The propandastic character of the Kissinger report becomes obvious, if one considers that none of the the social and economic measures suggested have realized. By choosing Kissinger, a man with an excellent reputation abroad, particularly in Europe, other countries, that had previously

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<sup>150</sup> *National Review*, "Here We Come? Here We Go?" February 24, 1984 p.28.

<sup>151</sup> *Ibid.*

<sup>152</sup> "Report of the National Bipartisan Commission on Central America", Chairman of Commission: Henry Kissinger (Washington, D.C.: Government Printing Office, January 1984) pp.25-27.

<sup>153</sup> See section on: "Stabilization-Pacification".

<sup>154</sup> *Ibid.* p.47.

been skeptical about the US involvement in Latin America, were more willing to accept the US position.

About a year after the Kissinger Report the State Department published "Revolution beyond Our Borders": Sandinista Intervention in Central America<sup>155</sup>. In an analysis of this report by the Institute for Media Analysis Morris Morely and James Petras write:

"The Report (Revolution beyond our borders) was intended not only to provide public defense of its war against Nicaragua, but also to counter any adverse publicity<sup>156</sup> that might flow from the change in US policy toward the World Court and weakened support for the precepts of international law."<sup>157</sup>.

The Report does not only fail to uncover any verifiable evidence or meaningful data to substantiate charges that Managua is exporting arms and attempting to destabilize the Central American governments, but in an attempt of "rewriting history" it even offers two versions of Somoza's overthrow<sup>158</sup>. One which involves quasi-conspiratorial Cuban planning and a second one that attributes the success of the Nicaraguan revolution primarily to the role played by the liberal groups<sup>159</sup>.

Despite constant repetition of various allegations, the US publicity campaign against Nicaragua followed a certain pattern.

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<sup>155</sup> *Revolution Beyond Our Borders*; Sandinista Intervention in Central America, Report No.132, (U.S. Department of State, Washington, D.C. September 1985)

<sup>156</sup> Since the US were expecting a negative ruling of the International Court of Justice, which was then in fact the case.

<sup>157</sup> Noam Chomsky, Morris Morley, James Petras, *The Reagan Administration And Nicaragua: How Washington Constructs Its Case For Counterrevolution in Central America*; *Institute for Media Analysis: Monograph Series: No.1* (Washington D.C.: Institute of Media Analysis, D.C. 1987) pp.33

<sup>158</sup> Chomsky, Morley - Reagan Administration p.34.

<sup>159</sup> *Revolution Beyond Our Borders* - pp.3-4.

In the first two years of the Reagan administration, Washington's major argument was that Nicaragua was exporting subversion by providing arms to insurgents<sup>160</sup> in other countries, particularly El Salvador and Guatemala, therefore the US had to intervene in order to inhibit these arms transfers. Since the US administration failed to establish firm proof of these allegations, this contention was finally extended to the claim that the Sandinistas were increasingly totalitarian and Washington began demanding general election and justified its policy by saying that political and economic pressure was necessary in order to prevent a further destruction of democracy in Nicaragua. After Managua had called upon national elections, which were denounced by the US as undemocratic before they were even held, the strategy shifted again by then describing Nicaragua as a hopelessly totalitarian system, which had to be overthrown by all means, since it presented a direct threat to US security<sup>161</sup>.

The previously mentioned government publications, speeches and citations represent only a selection out of a great number of similar efforts to rethorically undermine the reputation of the Nicaraguan government. Combined with direct and indirect pressure on other states to back the US policy, which also includes 'invitations' to countries like Saudi Arabia, Brunai or Israel to contribute financially and economically to the 'cause', Nicaragua was to be isolated in the international community.

Part of this strategy was also the firm denial that Nicaragua, despite its repeated offers, had no true intention to engage in negotiations and only after Nicaragua's pleas for improved relations with the US, Washington demanded that the Sandinista should first negotiate with the Contras<sup>162</sup>. Bradford Burns, author of the book "At War in Nicaragua" reports on President Reagan's effort to create an 'artificial Public':

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<sup>160</sup> *Department of State Bulletin*, June 1984, p.83.

<sup>161</sup> See chapter on "Military Threat". See further: *New York Times*, February 23, 1984, p.1.

<sup>162</sup> *The Nation:ecit*, April 20, 1985, p.460.

"On March 17, 1986, Reagan vaguely reported that a 'Central American opinion poll reveals that in some countries the rate goes as high as over 90% of the people who support what we're doing'. No researcher has been able to locate that poll."<sup>163</sup>

Polls taken in Latin America show that the contrary is true, in Costa Rica, for instance, only 39 per cent of the people support US-aid to the Contras<sup>164</sup>. The New York Times reported already in 1983 that the US finds itself isolated in the UN Security Council<sup>165</sup>, but nevertheless Secretary of State Schultz had the boldness to declare in September 1986, that he saw the attitudes in Latin America shift in favor of the US<sup>166</sup>.

Despite the lacking support for the US policy toward Latin America by 'allies' and 'friends' of the US, public opinion about Nicaragua has not remained unaffected by all this. It is important to note that this campaign was also aimed at people in Nicaragua, such as those to whom international reputation and the country's image abroad matter. The Nicaraguan magazine *Envio* identifies them as the educated people, the professionals as well as the wealthier middle class and the private sector, affluent people, who have connections to other countries, whose children might study abroad and being an important element in the whole system, their cooperation is needed. The more these people get the impression that they are working for a negatively labeled and internationally isolated regime, which is looked down on, the more will these people refuse to cooperate <sup>167</sup>.

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<sup>163</sup> Burns - At War in Nicaragua, p.39.

<sup>164</sup> Burns - At War In Nicaragua, p.39.

<sup>165</sup> *New York Times*, March 29, 1983, p.1.

<sup>166</sup> *New York Times*, November 12, 1986, p.3.

<sup>167</sup> "Una Guerra Sin Armas - Una Analisis de Una Guerra Sicologica Contra Nuestra Sociedad", *Envio*, (Instituto Historico Centroamericano, Managua, Nicaragua Junio 1986) Vol.5 Numero 60 pp.21-22.

### 5.3 *The Sabotage of Contadora*

Publicly the US have always declared that they essentially support the so called Contadora-peace-process and that they would undertake every effort towards a peaceful settlement within the framework of Contadora. The Department of State Bulletin cites a White House statement on Contadora documenting the proximity of positions between the US and the Contadora-group<sup>168</sup>:

"Compare our own four basic objectives in Nicaragua with the substance of the Contadora Document of Objectives. 1) We seek an end to Nicaraguan support for guerrilla; the Document calls for an end to support for subversion. 2) We want Nicaragua to sever its military and security ties to Cuba and the Soviet bloc; the Document calls for the proscription of foreign military bases and the reduction and eventual elimination of foreign military advisors and troops. 3) We seek reduction of Nicaragua's military strength that would restore military equilibrium in the area... 4) We seek fulfillment of the original Sandinista promises to support democratic pluralism..... 5) Finally, we seek a diplomatic solution..... The substance of the 21 objectives is virtually identical with our own reading..."<sup>169</sup>

Washington even recognized Nicaragua's repeated commitment such as in July 1973, in September 1983, and in January 1984 accepting free election, non-alignment, reduction of security advisors as well as engaging in negotiations on a treaty embodying<sup>170</sup>. Also after the final presentation of the draft, US Secretary of State praised both effort and document and also Costa Rica, Honduras, El Salvador, and Guatemala indicated their conditional acceptance<sup>171</sup>. Assuming that Managua would

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<sup>168</sup> The *CONTADORA* group consists of four nations with intense interest in the Caribbean and Central America - Venezuela, Colombia, Panama, and Mexico. Gathered on the Panamanian resort island of Contadora on January 8-9, 1983 the foreign ministers of these countries were trying to initiate a peaceful solution to the political crisis in Central America. The latest draft of the treaty was presented on September 12, 1985 including the following key elements: 1) the removal of all foreign troops and advisors from Central America; 2) the elimination of weapons or military bases which present a threat to peace and security in the region; 3) non-intervention in the affairs of other states in the region; 4) cessation of military actions which may present a threat to peace; further points were free elections, verification commissions, a stop of all arms imports, a stop of arms smuggling a.o. See: *Nation*, June 7, 1986, p.784./ also: Bradford E. Burns, *At War In Nicaragua; The Reagan Doctrine and the Politics of Nostalgia*, (Harper & Row, New York N.Y., 1987) pp.163-165./ also: Marlene Dixon, *Nicaragua under Siege* (Synthesis Publications, San Francisco, CA, 1985) pp.101-103, 107- 108, 122, 148, 189, 246-248

<sup>169</sup> *Department of State Bulletin*, June 1984, p.84.

<sup>170</sup> *Department of State Bulletin*, August 1984, p.79.

<sup>171</sup> Bradford E. Burns, *At War In Nicaragua; The Reagan Doctrine and the Politics of Nostalgia*, (Harper & Row, New York N.Y., 1987) p.165.

reject the proposal, since a key element was the expulsion all military advisors as well as a substantial reduction of armed forces, Washington used the Contadora-process also as defense strategy at in International Court of Justice, saying that the Court had no jurisdiction, since the matter was part of regional- conflict settlement-processes<sup>172</sup>. To the US's surprise, Managua accepted the proposal without modifications and in its entirety on September 21, 1984.

Already on July 19, 1983 Managua had presented a six-point peace proposal including "nonintervention, self-determination, the sovereign equality of states, cooperation for economic and social development, peaceful solutions to controversies, as well as the free and authentic expression of popular will" anticipating substantial parts of the Contadora-proposal, which was largely ignored by the US<sup>173</sup>.

After Managua's unexpected acceptance, Washington's position shifted.....

"...the United States signaled its displeasure. Washington applied intense pressure on Guatemala, El Salvador, Honduras, and Costa Rica to delay signing the agreement, and during the delay it worked to convince them that the Contadora Peace Plan was flawed. The foreign ministers of Honduras, El Salvador, and Costa Rica, prompted by Washington, presented a counter draft permitted US military exercise in Central America, modified restrictions on foreign military advisors, omitted the protocol binding the United States to uphold the agreement and changed the composition of the verification and Control Commission"<sup>174</sup>

Without US support the Contadora-efforts were bound to fail, Nicaragua would only sign if also the US were part of the agreement<sup>175</sup>. Through a leak in the National Security Council a document, dating from October 30, 1984 showed the extend of Washington's pressure on Central America:

"We have effectively blocked Contadora group efforts to impose the second draft to the Revised Contadora Act. Following intensive US consultations with El Salvador, Honduras, and Costa Rica, the Central Americans submitted a counter-draft to the Contadora states...(that) shifts concern within Contadora to a document broadly consistent with US interests... We have trumped the latest Nicaraguan/Mexican efforts to rush signature of an unsatisfactory Contadora agreement...Contadora

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<sup>172</sup> Burns - War In Nicaragua, p.165.

<sup>173</sup> Marlene Dixon, *Nicaragua under Siege* (Synthesis Publications, San Francisco, CA, 1985) p.101.

<sup>174</sup> Burns - At War In Nicaragua, p.168.

<sup>175</sup> Although the peace-proposal was internationally well-received, so the Inter-Parliamentary Union and the UN General Assembly particularly endorsed the peace-plan. See: Burns - At War In Nicaragua p.169.

spokesmen have become notably subdued recently on prospects for an early signing...although the situation remains fluid and requires careful management."<sup>176</sup>

After Washington's rejection Argentina, Brazil, Uruguay and Peru announced the formation of a Contadora Support Group and on September 12, 1985 a new draft was submitted. Under the new formula the US could have kept their bases and factoring in GNP and population Nicaragua, as a country facing military aggression, would have had to half its number of soldiers, while due to higher population rates and GNP's El Salvador, Costa Rica and Honduras could have maintained most of their military strength<sup>177</sup>. But although the new proposal had clearly put the United States in advantageous position, Washington continued to 'torpedo' the Contadora-efforts. The former US ambassador John Ferch, who was fired from his post in Honduras, commented the US obstruction- policy in following way:

"I always thought we meant what we said. We wanted pressure (on the Sandinistas) so we could negotiate. I'm beginning to think I accepted something that wasn't true..Our goal is something different. It's a military victory."<sup>178</sup>

In September 1985 a State Department Memo saying "We need to develop an active diplomacy now to head off efforts at Latin America Solidarity, whether they are sponsored by Contadora support group, the Cubans, or the Nicaraguans..we need to find a way to turn pressure they bring to bear on us or our friends to our advantage" becomes publicly known and leaves little doubt about Washington's opinion about Contadora.<sup>179</sup> On May 20, 1986 the New York Times reports that it had obtained a New Pentagon Study warning that the Central America Peace treaty being negotiated by the Contadora group "would grant Nicaragua virtual license to cheat, leaving the US no alternative but large-scale military intervention"<sup>180</sup>.

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<sup>176</sup> Burns - At War In Nicaragua, pp.169. See also: National Security Memo, October 30, 1984

<sup>177</sup> *Nation*, June 7, 1986, p.785.

<sup>178</sup> *Washington Post*, July 25, 1986.

<sup>179</sup> *State Department Memo*, September 4, 1985/ See also: *The Nation*, June 7, 1986, pp.784- 785.

<sup>180</sup> *New York Times*, May 20, 1986, p.1.

Up to the present no agreement has been achieved, Washington's continued support for the Contras, the rejection of the Panama Declaration<sup>181</sup> as well as the imposition of economic sanctions against Nicaragua in 1985 remain further obstacles.

Despite repeated efforts by the Contadora to consider Washington's security interests, the US essentially always remained opposed to the Contadora proposals, for two main reasons, as I would argue;

First, the Contadora-process has so far been the only realistic efforts towards a lasting peace treaty and Nicaragua has shown its willingness to sign it numerous times. An agreement with Nicaragua would not only have meant a recognition of the Nicaraguan system as well as its legitimate security interests, Washington would have also lost its argumentative foundation, upon which the entire US strategy against Managua is based. In order to proceed with sanction, overt and covert military operations, Washington had to abstain from signing the treaty. The second reason is much broader. The Contadora-process has found world-wide approval and recognition. Despite its failure the Contadora group - including the support group it represents 85 per cent of the Latin American population - has been able to establish itself as independent, politically potent group able to develop a serious, complex peace plan, that was unanimously backed by all participating members. It is plausible to assume that the establishment of an independent and powerful political group in Latin America is running counter to US hegemonic interests.

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<sup>181</sup> The Panama Declaration of June 6, 1986, the third treaty submitted by the Contadora group speaks of security interests of both the US and Nicaragua. Managua responded positively to both treaty and declaration. For details see: Burns - At War In Nicaragua, p.174.

## 6.0 The Strategy of Military Aggression

A crucial component of Washington's strategy to overthrow the present Sandinista regime in Managua is the US military strategy consisting of overt military threat as well as covert operation by intelligence units and US-funded, organized and equipped anti-Sandinist resistance-groups. The history of US military intervention is long and well-documented<sup>182</sup>. Marines or the CIA have always been Washington's last resort when economic or political pressure failed to do its work in order to protect US economic and political interests. The US military involvement in the establishment of the Somoza dictatorship in Nicaragua in the 1920s, the overthrow of the Allende government in Chile in 1973 or the "collective action" (State Department) against Grenada are milestones in the history of US military or CIA engagement in Latin America<sup>183</sup>.

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<sup>182</sup> For details see: Bergmann - Under The Big Stick. Eduardo Galeano, *Open Veins of Latin America* (New York N.Y.: Monthly Review Press, 1973), orig.: *Las Venas abiertas de America Latina*, Mexico 1971. Marlene Dixon, *Nicaragua Under Siege* (San Francisco, CA.: Synthesis Publications, 1985) pp.1-60.

<sup>183</sup> Concerning Chile see: Philip Agee, *Inside The Company: CIA-Diary*, (New York, N.Y.: Stonehill, 1975). Concerning Grenada see: *Department of State Bulletin*, August 1984, p.80.

## 6.1 *Overt Military Threat*

The 'overt' part of Washington's military strategy can be broken down in essentially two sub-categories:

- a strong military build-up in Nicaragua neighbor countries including the establishment of US bases and the presence of large US military contingents;
- the use of the forces present to apply pressure on Nicaragua by threatening with invasions, carrying out large-scale maneuvers, violating Nicaraguan air-space and water-ways, provoking border-clashes, etc.;

In an essay on "Domestic Roots of U.S. Foreign Policy project of Policy Alternatives for the Caribbean and Central America", the scholars Joshua Cohen and Joel Rogers give an account of the total military threat Nicaragua is confronted with. The main threat consists of US military units which is not stationed in the Caribbean or Central America, but which is assigned to the region in the case of an armed conflict, including one airborne division (82nd), one air-portable division (101st) and at least one or two ground divisions (7th army division) as well as one carrier battle group<sup>184</sup>. According to the two researchers some \$100 million are annually spent on construction, particularly in Honduras including roads and new airfields. A major project was the Pamplona airfield in Central Honduras, which was improved so that big transport aircraft such as the C-5A and the C-141 as well as F-15 and F-16 jet fighters are able to operate from there<sup>185</sup>.

In their essay Joshua Cohen and Joel Rogers also estimate that about \$3 billion of the annually spent \$9 billion (of which only \$1.2 are officially acknowledged) are accounted for military ex-

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<sup>184</sup> Joshua Cohen and Rogers Joel, "The true Cost of Intervention", *Nation*, April 12, 1986, pp.513-515/ See also: *Economist*, June 22, 1985, p.38.

<sup>185</sup> *Economist*, June 22, 1985, p.38.

penditures with regard to Central America<sup>186</sup>. About \$2.5 billion, according to Cohen and Rogers, is expended on the actual forces, stationed in Central America, \$500 million go into exercises and some \$100 million into construction-work. In 1986 more than 9,000 U.S. troops were stationed in Panama (including the 193d Infantry Brigade), about 1,500 are regularly in Honduras, 1,500 in Bermuda, 2,500 in Guantanamo in Cuba, 3,500 in Puerto Rico and 70 in El Salvador<sup>187</sup>.

In addition to the \$3 billion, a further billion is invested in the region as 'security assistance' pushing total military costs up to \$4 billion. Nearly 70 per cent of all U.S. assistance to Central America, distributed by ESF<sup>188</sup> is accounted for military assistance<sup>189</sup>. The past eight years have brought a tremendous increase of US-security aid to all of Nicaragua's neighbors (See TABLES 12, 13).

Particularly striking are the increases in security aid in absolute and relative figures in 1982 and 1983. In Honduras, El Salvador and Costa Rica expenses doubled, respectively tripled. It is also important to notice that the section 'total aid' of which, then security aid is separately stated as per cent of total aid, also includes the so called ESF-funds, which were mentioned already earlier in the paper.

"Economic Support Funds to Central America have grown markedly in recent years, from \$8 million in fiscal year 1979 to a requested \$757 million in FY 1986....(these) ESF (Economic Support Funds) aid is viewed as providing a stabilizing force for a government's economy and as a highly versatile instrument for meeting policy objectives. To the extent that ESF aid prevents security problems arising from economic unrest..."<sup>190</sup>

Thus, ESP funds do not only contribute significantly towards an economic pacification and compliance, they also provide a share of the finances necessary for the establishment of an internal and

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<sup>186</sup> Joshua Cohen and Rogers Joel, "The true Cost of Intervention", *Nation*, April 12, 1986, pp.513-516

<sup>187</sup> Ibid.

<sup>188</sup> Concerning ESF, please see chapter on Pacification-Stabilization.

<sup>189</sup> Ibid. p.514.

<sup>190</sup> *SIPRI*, World Armament and Disarmament; SIPRI yearbook 1986 (Oxford Univ.Press; Oxford 1986) p.312.

external security apparatus in those four Central American countries, but are not listed under 'security aid'.

Due to increased economic and military aid Central American countries have been able to steadily increase the size of their armed forces, reflected in rising military expenditures, although only Nicaragua and El Salvador are confronted with a significant armed resistance (See TABLES 13 - 17).

Despite a relative Nicaraguan superiority in terms of ground forces, El Salvador, Honduras and Guatemala combined are equipped with a superior airforce [Fighter aircraft :112 to 17<sup>(191)</sup>] as well as with Sidewinder and Shafir missiles, which would prevent Nicaragua from carrying out large-scale ground operations.

A further part of this strategy consists of "displaying strength" (President Reagan)<sup>192</sup> at Nicaragua's border combined with a certain war-rhetoric. In 1981 a series of military exercises began that was to continue the following 5 years, with the number of military manuevers increasing annually, five in 1982, ten in 1983. In January 1983 Honduras and the USA held joint manuevers at the Nicaraguan border involving 4,000 Hondurans and 1,600 US support troops<sup>193</sup>, large-scale naval exercises followed in summer. In the second phase of this operation the aircraft-carrier Coral Sea, the battleship New Jersey and four other warships were stationed off the Nicaraguan coast, engaging in exercises designed to cut- off Nicaraguan supplies<sup>194</sup>. Ocean Venture '84 in 1984 involved 30,000 troops one aircraft carrier, 35 ships, and 250 planes. Big Pine II lasted for 6 month and its peak involved 5,500 troops in Honduras and more than 16,000 troops on ships and planes. In mid-November, six exercises were taking place simultaneously, five of them directed against

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<sup>191</sup> *SIPRI, World Armament and Disarmament; SIPRI yearbook 1986 (Oxford Univ.Press; Oxford 1986) p.534.*

<sup>192</sup> *New York Times, July 25, 1983, p.1,*

<sup>193</sup> *New York Times, January 20, 1983, p.1.*

<sup>194</sup> *New York Times, August 17, 1983, p.5.*

Nicaragua<sup>195</sup>. In 1985 also National Guard troops become involved to a greater extent, when during several weeks about 7,000 US- soldiers were on manuever near the Nicaraguan border<sup>196</sup>.

The display of strength also includes overflying Nicaraguan territory as well as placing ships provocatively close to the Nicaraguan coast<sup>197</sup>. In other incidents US ships were harassing cargo-vessels with allegedly military shipments heading for Nicaragua. On other occasions President Reagan or officials of his administration openly threatened Nicaragua with intervention or announced that the US would impose a naval blockade.<sup>198</sup>In 1985 an expected military intervention by the US causes great damage to the Nicaraguan economy, after repeated warnings by the US administration and the announcement of major naval maneuvers, Managua puts its armed forces on combat alert. The coffee- harvest, vital to Nicaragua's economy, is interrupted, peasants and workers are drafted, tanks and heavy equipment are deployed in strategic areas around Managua<sup>199</sup>.

To many international observers it seems highly unlikely that the United States would undertake a serious major military operation against Nicaragua, or let alone an invasion<sup>200</sup>. Washington, being the aggressor could gain only little, internationally it would be highly damaging to the US reputation and even after a successful invasion the US army would probably face enormous difficulties in controlling the territory outside the major cities. It is also unlikely that such a step would be sup-

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<sup>195</sup> *The Nation*, April 12, 1985, p.514.

<sup>196</sup> *New York Times*, April 5, 1985, p.1.

<sup>197</sup> *New York Times*, March 10, 1982, p.1./ July 30, 1983 p.1. *Barricada*, June 15, 1984, p.1./ August 21, 1984, p.1./ March 18, 1985/ In August 1984 I witnessed an overflight of a US supersonic reconnaissance plane, breaking the sound- barrier over Managua, so that the people thinking of an attack started panicking.

<sup>198</sup> *New York Times*, November 25, 1981, p.22. *New York Times*, December 5, 1981, p.1. *New York Times*, July 19, 1983, p.1. See further: *New York Times*, August 4, 1983, p.1. *New York Times*, August 18, 1983, p.4.

<sup>199</sup> *New York Times*, November 13, 1985, p.9.

<sup>200</sup> *Nation*, April 12, 1986, pp.513-516/ See also: *Economist*, June 22, 1985, p.38.

ported by the majority US citizens. On the other hand many Sandinistas are 'obsessed'<sup>201</sup> with the idea of an imminent intervention in one or the other form, an idea, however, that has been nourished by the long tradition of US military intervention and that was reinforced after the, to many observers unexpected, invasion of Grenada. This concrete fear combined with the real, daily, threat of Contra attacks had the effect that Nicaragua built up its military apparatus to an extent, that, with regard to the country's massive economic problems, becomes increasingly difficult to justify. By spending between 40 to 50 per cent<sup>202</sup> of the budget on defense at the expense of social and economic programs, by drafting an ever increasing number of partly very young men and women, and by expanding its military ties with Cuba and the USSR<sup>203</sup>, Nicaragua is doing Washington a great favor. Despite its strength, it is plausible to assume that the Nicaraguan army will not be used to attack one of its neighbors. Nothing would, probably, be more welcome by Washington than a pretext for an intervention, where the US would not be considered the aggressor.

## 6.2 *Covert US-Operations and the Contra Warfare*

"The Contras are the moral equivalent to our founding fathers" (Ronald Reagan)

Besides economic strangulation, the Contra war against Nicaragua seems to be Washington's most

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<sup>201</sup> I know it is difficult to prove this claim, I did get this impression, however, after talking to various Sandinista military officials, such as the commander in chief of the province Zelaya and member of the national defense board, Arnaldo Arguio, in June 1984. Further indication is provided by numerous statements of other Sandinista-spokesmen. For details see: e.g. *New York Times*, March 10, 1982, p.1.. See also: *Nicaragua; The Sandinista People's Revolution - Speeches by Sandinista Leaders*, (ed.) Bruce Marcus, (New York, N.Y.: Pathfinder, 1985)

<sup>202</sup> *The Economist*, August 17, 1985, p.31., *The Nation*, August 31, 1985, p.1., *New York Times*, April 27, 1983, p.1., *New York Times*, October 29, 1986, p.3.

<sup>203</sup> *SIPRI-Yearbook* 1986, pp.316-317.

successful strategy, not because the Contras represent a political challenge to the Sandinistas, but because their activities cause immense damage to the Nicaraguan economy. A further interesting aspect about the US-secret operations against Nicaragua is that little of it is 'covert' or 'secret' - nevertheless, up to the present, many international observers and analysts do not view the Contras as what they really are - as one of Washington's military strategies to overthrow the Sandinistas. Many people rather believe in the various myths that were created around the Contra-movement. Myth number 1 is that the Contras originally consisted of parts of the former national-guard that fled into the dense woodland in the North of the country in order to continue the fight against the Sandinistas. Myth number 2 is that later they were approached by the CIA in order to train and organize them, as well as to provide a political structure for them. Myth number 3 is that meanwhile most of the former national-guard men have been replaced by many peasants, workers and middle-class people who are opposed to the Sandinistas. Myth number 4 is that Contras fight for democracy.

When in August 1980, newspapers reported "band of gunmen, apparently former National Guards, kills 3 people and wounds 3 in raid near Honduran border"<sup>204</sup> then this was not only the beginning of seven years of bloody Contra-war, but it was also the first manifestation of a carefully planned counter-revolution.

When Somoza had been cut off all military supply by President Carter through the invocation of the Harkin Amendment in early 1979, Somoza, nevertheless, received US military equipment. This was provided by an organization called the "secret team", which was identical with a group of people who ran the semi-private Egyptian-American Transport and Service Company<sup>205</sup>. This group consisting of Theodore Shackley, Thomas Clines, Albert Hakim, Richard Secord and the 'counter- subversion specialist' Raphael "Chi Chi" Quintero<sup>206</sup>, who offered their services to Somoza

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<sup>204</sup> *New York Times*, August 2, 1980, p.6.

<sup>205</sup> *Affidavit of the Counsel* submitted by attorney Daniel P. Sheehan in the Amended Complaint of October 4, 1986. Reprinted by the *Christic Institute*, Washington D.C.1986 p.40.

<sup>206</sup> *New York Times*, December 10, 1986, p.21.

for \$80,000 a year, plus additional \$250,000 for the operation. Shackley and Clines used to be high-ranking CIA officials before they were forced to resign under President Carter in late 1978<sup>207</sup>.

The activities of the group can be traced back to the 'Bay of Pigs', Vietnam, Laos and CIA-operations in Iran. And it was also in Laos, where Shackley was CIA station-chief, that Deputy Air Wing Commander for Special Operations Group Lt. Col. Secord was on the staff of General John Singlaub, who had a young 2nd Lieutenant, named Oliver North, serving under him. Allegedly, the major task of the Special Operation Group (MACV-SOG) or Joint Task Force for unconventional warfare was a political assassination program in Laos, Cambodia and Thailand<sup>208</sup>.

In 1973, however, these people decided to set up their own private non-CIA authorized "anti-communist, unconventional warfare program"<sup>209</sup>. From March to July 1979, Shackley's secret team supplied military equipment to Somoza. Chi Chi Quintero functioned as middleman between Somoza and the team. When Somoza fled to the Bahamas the contact between the group and Somoza never ended. Already, in July 1979 on North Cay, an island of the Bahamas, Shackley, Clines, Secord and Hakim entered into a contract to supply aircraft, weapons, ammunition and military explosive to Somoza and his La Guardia Generals in order to set up an anti-Sandinist (Contra) Guerilla- organization, that was virtually identical to the one Shackley and Clines had supervised against the socialist government of Cuba from 1961 to 1965<sup>210</sup>. The arms transfer, organized by Quintero was carried out by the Miami-based Orca Supply Company and lasted until June 1981, when the CIA 'officially' took over this operation and assigned Vincent M. Cannistraro to take place of Raphael Quintero.

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<sup>207</sup> *Affidavit* p.40.

<sup>208</sup> *Affidavit* p.35.

<sup>209</sup> *Affidavit* p.36.

<sup>210</sup> *Affidavit* p.41.

When the Boland amendment was passed in late 1983, cutting of the Contra supply, Oliver North, meanwhile in the National Security Council of the Reagan administration would contact the 'secret team' in order to re-activate the military supply of the Contras.

When the CIA began its Contra operation in 1981, the structure of the organization was changed and a political superstructure under the name *Fuerza Democratica Nicaraguense* (FDN) was created. As regional operational headquarters, the Honduran capital Tegucigalpa was chosen. Besides the fighting units of the Contras, the CIA also organized the above mentioned political umbrella, whose task was to carry out a Public Relations campaign with the main goal to maintain support of the Congress for CIA activities<sup>211</sup>. Since the CIA's confidence in the military capabilities of the Contra was limited, special CIA combat units were used to carry out the more sophisticated operations such as the mining of the harbors, the bomb attacks on pipelines or the air raid on the Managuan airport in September 1983, an action that nearly killed the US senators Hart and William when the downed plane crashed into the press-center where Hart and Cohen were scheduled to meet reporters, in all these instances the CIA asked the Contras to take credit for these actions<sup>212</sup>. The CIA also organized media campaigns in Central America including the funding a Contra newspaper supplement distributed in major Latin American newspapers, financing Contra radio stations as well as paying Costa Rican and Honduran journalists<sup>213</sup>. In the United States similar action was taken by raising private funding for TV- advertising in the districts of representatives who were wavering on the Contra issue. Much of this organizational work and lobbying was done by Max Hugel, a former deputy CIA director<sup>214</sup>.

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<sup>211</sup> "Back in Control: The CIA's Secret Propaganda Campaign Puts the Agency Exactly Where It Wants to Be"; Interview with Edgar Chamorro, *Common Cause Magazine*, September/October 1986 p.32.

<sup>212</sup> *Common Cause Magazine*, p.30.

<sup>213</sup> *Ibid.*

<sup>214</sup> *Common Cause Magazine*, p.31.

Edgar Chamorro, a former Contra-leader, who was recruited by the CIA in 1981, but who quit work in 1984 and then testified at in the International Court of Justice against the USA described his cooperation with the CIA in the following way:

"I attended meetings at which the CIA officials told us that we could change the votes of many Members of Congress if we knew how to sell our case and place them in the position of looking soft on Communism. They instructed us to contact certain prominent individuals in the home districts of various Members of Congress as a means of bring[ing] pressure on these Members to change their votes...The CIA station in Tegucigalpa, which at that time included about 20 agents working directly with the FDN, gave me money, in cash, to hire several writers, reporters and technicians to prepare a monthly bulletin called *Commandos* to run a clandestine radio station and to write press releases..."<sup>215</sup>

"... 'George' (a liaison man between CIA and the Contras) told me to rush to our clandestine radio station and read his announcement before the Sandinistas broke the news..(of the harbor-mining)..the truth is that we played no role in the mining of the harbor...."<sup>216</sup>

Chamorro also talks about a further strategy, which is to link the Contras to religion as a major theme in the CIA's propaganda campaign:

"The agency knows what tremendous influence the [Catholic] Church is in Central America, and they told us to emphasize religious themes. We were to make the contra-war look like a crusade - an effort to stop the Sandinistas' evil, godless empire."<sup>217</sup>

The CIA's most ambitious effort to influence public opinion in Latin America is *Nicaragua Hoy*, a four page newspaper supplement produced in San Jose and distributed to 624,000 readers through major newspapers in Latin America. Chamorro said about the program, that was to be carried out in Honduras and later in Costa Rica that..

"..I was given money by the CIA to rent a house, office space and automobiles, and to obtain office supplies and communications equipment. I also received money from the CIA to bribe Honduran journalists and broadcasters to speak favorably about the FDN and to attack the government of Nicaragua and call for its overthrow. Approximately 15 Honduran journalists and broadcasters were on the CIA's payroll, and our influence was thereby extended to every major Honduran newspaper and radio and television station."<sup>218</sup>

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<sup>215</sup> *Common Cause Magazine*, p.31.

<sup>216</sup> *Common Cause Magazine*, p.32.

<sup>217</sup> *Common Cause Magazine*, p.32. When I witnessed a Contra- attack in San Jeronimo in June 1984, I could see that the soldiers had badges on caps and uniform showing the white and yellow colors of the Vatican.

<sup>218</sup> *Common Cause Magazine*, pp.32-33.

A further element in the covert strategy against the Nicaragua was to provide funding for non-organized opposition groups and parties in and out side Nicaragua. About \$300,000 (plus additional \$50,000 for individual members) was offered by the US embassy in Managua to the Democratic Conservative Party to abstain from the general elections in 1984<sup>219</sup>. The Nicaraguan newspaper *La Prensa* received US government funding in 1985 including a grant of \$100,000 in 1985 from the National Endowment for Democracy. In 1986, the paper was awarded about \$103,000, which was distributed by PRODEMCA. Since *La Prensa* was closed at the time, none of the money was actually received by the paper, as *La Prensa* editor Violeta Chamorro contends, whose son Pedro Chamorro produces the CIA-sponsored FDN paper *Nicaragua Hoy*<sup>220</sup>.

Between 1981 and 1987 Washington has spent several hundred million dollars in support of the Contras. Alone in 1983 the Contra forces had received \$80 million<sup>221</sup>. After growing nervousness of the Congress about US involvement<sup>222</sup>, the funds were drastically reduced to \$24 million in 1984<sup>223</sup>, these figures, however do not yet include the 'contingency fund for CIA covert operations, which amounted to \$50 million in 1984<sup>224</sup>. In addition, the Contras benefitted from US equipment left behind after maneuvers. For special operations the CIA provided supply planes, speedboats (piranias) and attack helicopters. While the Boland-amendment was in effect, the Contras received \$27 million of 'humanitarian' aid<sup>225</sup>, about \$25 million raised by General Singlaub's organization<sup>226</sup>

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<sup>219</sup> *The Nation*, March 15, 1986, p.294.

<sup>220</sup> *Common Cause Magazine*, p.36. See also: *New York Times*, March 26, 1986, p.1.

<sup>221</sup> Bradford E. Burns, *At War with Nicaragua, The Reagan Doctrine and the Politics of Nostalgia*, (Harper & Row; New York, N.Y.,1987) p.54./ See also: *New York Times*, May 4, 1983, p.1. *New York Times*, March 18, 1984, p.1.

<sup>222</sup> c.f. *New York Times*, May 18, 1983, p.8.

<sup>223</sup> *ibid.*

<sup>224</sup> *New York Times*, May 18, 1983, p.3.

<sup>225</sup> *The Economist*, August 17, 1985, p.23.

<sup>226</sup> *New York Times*, August 13, 1985, p.1.

and further \$10 million donated by other private groups<sup>227</sup>. In 1986 the US Congress finally approved of a \$100 million aid package to the FDN<sup>228</sup>.

Much has been written about atrocities committed by the Contras, the 'moral equivalent of the founding fathers' have a long record of assassinations, killings, raping, kidnapping and other human right violations. The 'Washington Office on Latin America' as well as the 'National Commission for the Protection of Human Rights' issued reports containing detailed information on the effects of the terrorization strategy on the civilian population of Nicaragua <sup>229</sup>. The record shows that teachers, doctors, nurses, community leaders, agrarian officials and small peasants are the primary target of Contra atrocities<sup>230</sup>.

Contrary to widespread beliefs that the Contras due to their limited motivational commitment, due to lack of discipline and military ability have proven a highly ineffective tool<sup>231</sup>, I would argue that the FDN strategy may be more thoroughly thought out than it appears to be the case at first sight. It is probably also true that the Contra war has, thus far, actually strengthened the moral and political position of the Sandinistas and thus also promoted all wrong aspects of *vanguardism*. In the future, however, it is very likely that the growing war-weariness of a population, that has been confronted with war costing about 50,000 lives until 1979 and now, again, estimated 12,000<sup>232</sup> victims up to the present, will not ultimately lead to an attitude favoring peace at whatever costs. Sandinistas and their supporters have often claimed that the Contras have ever been able to 'hold

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<sup>227</sup> *New York Times*, September 9, 1984, p.1.

<sup>228</sup> *Wallstreet Journal*, June 26, 1986, p.64. *New York Times*, October 26, 1986, p.1.

<sup>229</sup> *Nicaragua: Violations of the Laws of War by both Sides, First Supplement: January - March, 1986* (Washington Office on Latin America, Washington, D.C. 1986) *Nicaragua: The Contra Human Rights Record: July - December, 1986. An Investigative Report Prepared by the National Commission for the Promotion of Human Rights CNPPDH; Managua, Nicaragua 1986*)

<sup>230</sup> *Bradford E. Burns, At War with Nicaragua, The Reagan Doctrine and the Politics of Nostalgia, (Harper & Row; New York, N.Y.,1987) p.54.*

<sup>231</sup> c.f. "Heroes or Terrorists", *Newsweek*, April 29, 1985 pp.42-44, *New York Times*, July 24, 1983, p.1.

<sup>232</sup> *New York Times*, July 18, 1985, p.1.

a single village for more than 24 hours, let alone control an entire area like the Faribundo Marti-guerrilla in Chalatenango, El Salvador. Maybe this has never really been the strategy. I believe that Washington soon realized that the Contras were militarily and politically not capable of seizing power even in a remote part of the country in order to establish a counter-government that would then have been recognized by Washington. Thus, FDN's political wing degenerated, as Chamorro said, into merely a fund-raising institution unable of presenting a realistic political alternative to the FSLN, while FDN's military part solely functioned as henchman of Washington's strangulation strategy.

This military strategy of the Contras seems to consist of three basic elements:

- terrorization of the rural population,
- assassinations and kidnapping of people crucial to the Sandinista social and political system, such as teachers, professionals and experts in agricultural, economic and technical areas, political officials, foreign advisors, doctors, nurses, journalists etc.,
- creating additional economic damage through sabotage, and thus, forcing the Sandinista government to spend tremendous amounts on defense.

The terrorization strategy seems to produce two effects, first of all, it should provide support for the Contras among the poor rural population. It is virtually impossible for the government to protect the thousands of farms and small communities in the remote North and North-East of the country, therefor many peasant were organized in defense units, but the more isolated their farms are the more easily do they become a victim of the Contras. An isolated population which practically experiences Contra-raids every week has the choice between being continuedly exposed to Contra harassment or of accepting 'protection' by the Contra in return for food and shelter<sup>233</sup>. Being under

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<sup>233</sup> Working in the North of Nicaragua, I had ample opportunity of talking to many farmers and members of small cooperatives, who said that despite their support for the government, they could not go on like this. The village elders of a settlement close to the Honduran border said that about every farm in the

the influence of the Contras 'soft' support easily turns into actual support in the sense that peasants join the anti-Sandinist guerrilla. The second and more important effect this strategy produces is the damage done Nicaragua's economy. The Sandinistas can not afford abandoning these Northern territories, since it is the countries most important coffee-growing areas. In 1985 nearly a quarter of the coffee-harvest was lost through Contra activities, affecting nearly 200,000 acres of coffee-bushes<sup>234</sup>.

Assassinations and kidnapping of experts and foreign advisors, does not only directly affect the system, but it also creates an unstable political climate discouraging people, particularly, foreigners from cooperating with the Sandinistas<sup>235</sup>.

The Contra warfare eventually forced the Sandinista government to steadily increase its defense spendings and it it also made the Sandinistas resort to a number of very unpopular undemocratic, police-state-like measures such as the deportation of thousands of Indians from the North of the country<sup>236</sup>, the introduction of the draft recruiting an ever increasing number of young people<sup>237</sup>, military operations against areas of the country where the people had been suspected of cooperation with the Contras<sup>238</sup>, or the shut down of the newspaper La Prensa<sup>239</sup>.

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region there had about two to ten 'Contra visits'. See also: *Wall Street Journal*, January 21, 1986, p.32. *Washington Post*, May 17, 1987, p.1. *Newsweek*, April 29, 1985, p.42.

<sup>234</sup> *Wall Street Journal*, January 21, 1986, p.32.

<sup>235</sup> *Washington Post - Magazine*, May 31, 1987. See also information on a CIA-fabricated *Manual for the Contras*, which recommends assassinations and kidnapping of government officials, experts etc. *New York Times*, October 15, 1984, p.7./ October 17, 1984, p.1./ November 20, 1984, p.23.

<sup>236</sup> In 1982 the Sandinistas began massive deportation program for the 10.000 Miskito indians in the North of the country in order to stop the Contras from recruiting followers among the secessionist indian tribes. The Sandinista's policy towards Indians had become object of harsh international criticism and the Sandinistas finally admit that the poorly designed and irresponsibly executed Miskito-project has been the their biggest mistake of their program of national reconstruction. See also: *New York Times*, August 13, 1982, p.3.

<sup>237</sup> According to *New York Times*, about 50,000 young Nicaraguans have been trying to escape the draft, many of them have left the country. See: *New York Times*, April 11, 1985, p.1.

<sup>238</sup> *Nicaragua: Violations of the Laws of War by both Sides First Supplement: January-March, 1986* (Washington Office on Latin America, Washington, D.C. 1998)

<sup>239</sup> *New York Times*, August 14, 1982, p.3.

The damage caused by the Contra war has been enormous, the most recent detailed figures from 1984, list a total damage due to war-effects on land and economy of over \$61 million, the actual amount of damage up to the present is believed to be about eight to ten times higher, since the figures for 1983 did not include yet major events such as the harbor minings, the major attacks on factories and pipelines, or the losses through the declining mining-industry in the troubled territories<sup>240</sup> (See TABLE 18.)

The figures also give no account for that which was not produced due to the mobilization of workers, technicians and professionals and it also does not reflect the allocation of resources for defense purposes. Major targets of Contra attacks have been:<sup>241</sup> a) agricultural cultivations, particularly grain and coffee, b) equipment and machinery such as trucks, tractors, road construction equipment, c) delay of construction of roads, dwellings and bridges, d) bridges, forest areas (burning of 40,000 hectares of pine causing a damage of \$20.0 million), e) Child Development Centers, schools, health centers (in four regions of the country 310 Popular Educations centers had to be closed, two elementary schools were destroyed, and 37 rural teachers and 8 professors were killed until 1983), and, f) factories, ports (including the mining of Puerto Sandino, Corinto and speedboat attacks on El Bluff and San Juan del Sur), food-storage places, silos, pipelines.

In 1986 over 50 per cent of government expenditure was again allocated to the war effort, with a further 10 per cent allocated to strategic investment projects. The overall economic losses due to the war were estimated to be nearly \$200 million <sup>242</sup>.

It is important to notice, however, that the Contras have avoided direct confrontations with the Nicaraguan military and that compared with civilian institutions, and targets of general economic importance strictly military targets, governmental and party-political institutions have been neg-

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<sup>240</sup> Dixon - Nicaragua under Siege, pp.34-39.

<sup>241</sup> Ibid

<sup>242</sup> EDU- *The Economist Intelligence Unit*, 1987, (The Economist Publications Ltd. 1986) No.1 p.14.

lected. This procedure seems to confirm that the political strategy underlying the military strategy is as follows.

The attacks on educational institutions, health centers, social projects, economic cooperatives are designed to sabotage the 'popular part' of the Sandinista model, by delaying the agricultural reform and destructing the social and political accomplishments of the Sandinistas, which again particularly affects the poorer rural population. The economic damage caused by the war aggravates the lives of every Nicaraguan, but it particularly affects the more affluent Managuan middle-class. Traditionally the capital (one third of the population) has taken a relatively great share of the country's food supply (one half). In order to bolster the civilians' morale in the war zones, the Sandinistas had to abandon their long-standing priority favoring Managua in the distribution of consumer goods. This in return is leading to increasing discontent of the urban middle-class of Managua<sup>243</sup>. In addition, those social group that came to enjoy the new civil liberties of the 'representative-democratic' part of the Nicaraguan model are increasingly concerned about what they call the 'destruction of the democracy' by the Sandinistas, since the fear of subversion on the part of the Sandinistas has caused them to suspend various civil liberties - at least temporarily - to impose martial law, to close down radio stations and newspapers. The US military and political strategy combined with a series of economic measures, that will have to be discussed in the following chapter, have turned Nicaragua into a besieged camp and to an increasing number of Nicaraguans, may find that the solution to the problem lies in a future without the Sandinistas.

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<sup>243</sup> Collins - What Difference Could A Revolution Make, pp.220-221.

## 7.0 Nicaragua's Economic Strangulation

### 7.1 *On Sanctions*

Since the following part of this chapter will mainly deal with various forms of sanctions applied by the USA against Nicaragua, this excursion is intended to give a short definitional survey of the term 'sanctions' as well as to list some literature sources in this context.

In legal or economic context sanctions as means of international politics is understood as some kind of punitive action taken by one country in order to accomplish foreign policy goals regarding one or more target countries without the application of military means<sup>244</sup>. Embargo is defined as "prohibition imposed by law upon commerce either in general or in one or more of its branches"<sup>245</sup>.

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<sup>244</sup> c.f. Benjamin B. Ference, *Enforcing International Law; A Way to World Peace*, (New York, N.Y.: Oceana Publications, 1980) pp.246-248

<sup>245</sup> c.f. Daoudi, M.S. and M.S. Dajani, *Economic Sanctions; Ideals and Experience*, (London: Routledge & Kegan, 1983) p.3

Even in the scientific literature the definition of terms such as embargo, sanctions or boycott seems to spark considerable disagreement and confusion among scholars. Without going into a detailed investigation of the definitional problems, we could say that embargoes are generally a particular form of economic sanctions where trade restrictions are imposed on domestic commerce in order to hit a particular target country. In political history sanctions have always played a key role in political relations between countries. With the growing economic interdependence of the world, various forms of economic sanctions such as boycotts and embargoes have been used as a substitute for the use of military force.

The effectiveness of sanctions has come to be measured by the economic deprivation it imposes on the target, and by the impoverishment and hardships the target community faces<sup>246</sup>. The long-range objective of sanctions is to secure total compliance or, at most to cause so much economic damage that the target government either grossly alters its policies or is overthrown in favor of a more responsive regime. Their function, however, hinges on the precise purpose or goals set by the sanctioner as well as on the economic relationship between the sanctioner and the target at the time sanctions are imposed<sup>247</sup>. Theoretically, economic sanctions are most effective politically in cases where suppliers are limited, the supplied demands and the supplied demand is critical to the embargoed country. A review of sanction literature however shows that, the application of economic measures is often considered inefficient or even counter-productive<sup>248</sup> It is important to note, however, that Washington in the case of Nicaragua, has been using a mixed strategy involving military and other policy measures in order to enhance the effectiveness of sanctions<sup>249</sup>

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<sup>246</sup> c.f. Daoudi, "Economic Sanctions" p.162

<sup>247</sup> c.f. Ibid., p.162

<sup>248</sup> See the selected bibliography on sanction literature

<sup>249</sup> Johan Galtung, "On The Effects Of International Sanctions: With Examples From the Case of Rhodesia", *PRIO-Publications* (Oslo: International Peace Research Institute, 1966) No.20-3./See also: James M. Lindsay, "Trade Sanctions As Policy Instruments: A Re- examination", *International Studies Quarterly* (1986) 30, pp.153- 173. In this context I would like to mention Margaret P. Doxey's very valuable book on 'Economic Sanctions and International Enforcement' showing how Washington, via the OAS, wielded its influence with other Latin American countries in the cases of the Dominican Republic and Cuba. See: Doxey, P. Margaret, *Economic Sanctions and International Enforcement*; (London: Oxford Univ.Press, 1971) pp.37-45 /See also: c.f. Coraggio - Revolution and Democracy, p.7.

## *7.2 The Suspension of Economic Aid*

Being a dependent developing country, Nicaragua had not been able to use its export profits for domestic development programs, since these capital gains were used otherwise. Before the revolution the wealthier classes spent most of this money on imported luxury products or transferred it directly to accounts abroad. After the revolution export gains have been used mainly for repaying credits, as well as for subsidizing the domestic food production and distribution by keeping consumer prices artificially low - See Chapter 1: "Failures and Shortcomings of the Sandinista Economic Policy." In order to carry out additional development programs and to finance the post-war reconstruction program Nicaragua was entirely dependent upon foreign technical, financial and other economic aid. Traditionally most technological assistance and foreign aid had been coming from the US. Nicaraguan power plants and factories were as dependent on a constant supply of parts and know-how as the numerous US made tractors, trucks, radios and TV sets. By suspending all bilateral US aid to Nicaragua Washington did not only intend to minimize the success of the social reform program, but the US also forced Nicaragua to seek a higher amount of financial aid on the international market than usual. Once Nicaragua had managed to substitute the lacking US aid, at least temporarily, by obtaining loans from other countries and various funding agencies. The US then tried to cut off Managua from these new sources. While the social progress in Nicaragua was to a great deal dependent on international aid and funding, the Nicaraguan private sector needed the US as export market and supplier. The introduction of the various sanctions and finally the embargo of 1985 hurt the private sector substantially. The accelerating inflation rate, the lack of supplies, the sharply increasing prices as well as the existing dollar shortage produced the

desired effect that an ever increasing number of the middle-class and private sector refused to cooperate further with the Sandinistas.

In 1980, the campaigning Republican party threatened the Carter administration to make Nicaragua and the previous Central America policy an election issue, and accused the new Nicaraguan government of supporting international terrorism. In response to these allegations Carter's State Under Secretary Warren M. Christopher responded that "evidence does not support" this accusation<sup>250</sup>. Nevertheless Republican appeals to 'freeze' Nicaraguan relief funds, did not only affect Nicaraguan attempts to re-negotiate the \$600 million debt, but did also filibuster Congress' consent to a \$75 aid bill for Nicaragua<sup>251</sup>. The bill finally passed after President Carter had publicly guaranteed that Nicaragua's revolutionary government is not supporting 'terrorism or violence'<sup>252</sup>. Republican contentions against the democratic character of the Sandinistas provide the ground for expected shift in Washington's Nicaragua-policy. Nearly a month later two events coincide which do not only have a significant effect on US-attitude towards the Sandinistas but also serve as justification of the following Reagan policy for Central America.

In January 1981 the Reagan government, for the first time, resorted to direct economic pressure by suspending payments to Nicaragua from the \$75 million economic support fund and by imposing an embargo on wheat shipments to Nicaragua<sup>253</sup>. Secretary of State Alexander Haig justified this step in front of the Senate Foreign Relations Committee by saying that Nicaragua would deviate from the 'spirit of the OAS charter' by providing arms for the El Salvadorian insurgents<sup>254</sup>. In April a \$10 million credit for wheat purchases within the PL 480 program is suspended. Nearly two month later an indefinite suspension of all future bilateral assistance was announced including an

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<sup>250</sup> *New York Times*, September 5, 1980, p.6

<sup>251</sup> *New York Times*, September 6, 1980, p.20/ c.f. also: *New York Times*, September 9, 1980. p.IV,1.

<sup>252</sup> *New York Times*, September 15, 1980, p.6.

<sup>253</sup> "Nicaragua The Other War", *Progressive*, January 1984, p.22.

<sup>254</sup> *New York Times*, January 11, 1981, p.27 and January 23, 1980 p.3.

already approved \$11.4 million credit for rural development and educational health care programs (See TABLES 19 - 20)<sup>255</sup>.

In a joint communique the presidents of Venezuela and Mexico, Herrera Campins and Lopez Portillio, reiterated their commitment that they would continue helping Nicaragua, despite the US decision to cut-off economic aid to the Sandinistas. At this time the Sandinistas also turned for the first time to the Soviet Union in order to make up for Washington's suspended aid program. Finally a number of Latin American countries including Cuba provided food and financial aid. The USSR donated about 20 000 tons of grain and lent Nicaragua other supplies in an effort to offset the end of US-aid. In total Nicaragua received \$100 million from Libya, \$64 million worth of technical assistance from Cuba as well as additional \$3.7 million from the World Bank<sup>256</sup>.

The next step taken by the White House was to bar Nicaragua from the 'Caribbean Basin Initiative' (CBI), which was conceived in 1981 in order to improve the economic situation in Central America<sup>257</sup>. Though the CBI turned out to be a major flop in terms of stimulating economic development in the region, the exemption from CBI did not only exclude Nicaragua from a \$350 million aid program, financed by the US, but it also shifted the economic exchange ratio between the Central American economies to the benefit of the CBI countries, since Costa Rica, El Salvador, Guatemala and Panama came to enjoy facilitated trading with the US. By 1984 US imports of raw-materials and food from the region increased by 17 per cent to \$3.8 billion, a development which Nicaragua has not been able to share<sup>258</sup>. In the case of the CBI and also of later sanctions,

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<sup>255</sup> Dixon - Under Siege, p.15.

<sup>256</sup> *New York Times*, all April 1981: 9, p.14; 20, p.3; 20, p.3; 21, p.10, 26, p.4.

<sup>257</sup> CBI provides for duty free access to the US market over a period of twelve years for all products except textiles and clothing, footwear, handbags, luggage, flat goods, leather apparel, work gloves, canned tuna, petroleum and petroleum products, watches and watch parts. Although sugar became part of the CBI agreement, it is still subject to quota limits. In order to qualify for all goods must be exported directly to the USA and a minimum of 35 per cent of their value must be locally added (though 15% may be of US origin). The CBI also allows for tax exemptions for businessmen attending conventions in beneficiary countries and is being supported by a \$350 million aid program by the US Congress in 1982. See: *Intelligence Unit/ EIU*, (London: The Economist Publications Ltd., 1986) pp.9-10

<sup>258</sup> *Economist Intelligence Unit/ EIU*, pp.9-10.

the short-sightedness of the Sandinista economic policy becomes obvious considering the fact that the Sandinista government continued to promote a type of production resulting necessarily an 'unequal exchange' of trade with those superior economies, the Nicaraguan economy was interfacing with. In stead of taking advantage of the loosened economic ties to its major exploiter, Nicaragua shrunken access to the US market hurt its economy even more.

In March of 1982 the US government declared that it would provide "millions of dollars in covert financial aid to individuals and private organs in hopes of bolstering moderate elements in the country"<sup>259</sup>. In June of the same year President Reagan asked the Congress to for \$5.1 million to give 'political and moral support' to the country's private sector opposed to the Sandinista Government, in order to undermine the economic policy of the Sandinistas<sup>260</sup>. In May 1982 the country was shaken by a major flood disaster causing \$200 damage, killing more than 100 people and leaving 60 000 homeless<sup>261</sup>. It was in this situation when the coordinator of the Nicaraguan junta Daniel Ortega signed the first major aid pact with the USSR involving \$166.8 million in technical assistance and credits for various Soviet-built projects<sup>262</sup>.

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<sup>259</sup> *New York Times*, March 11, 1982, p.18.

<sup>260</sup> *New York Times*, June 26, 1982, p.3.

<sup>261</sup> *New York Times*, May 30, p.7.

<sup>262</sup> *New York Times*, May 11, 1982, p.8.

### *7.3 The Prevention of Nicaraguan Access to International Financial Sources*

Already in December 1981 the US representative to the World Bank vetoed a \$500,000 project proposal for the development of agricultural cooperatives. After threatening to cut Nicaragua's meat imports the United States pressure the World Bank to undertake unilateral action against Nicaragua by suspending the credit program<sup>263</sup>.

In fall Washington tried again - this time without success - to veto a bank loan to Nicaragua, and in September the Inter- American Development Bank approves a \$34 million loan to the Sandinista Government<sup>264</sup>. Despite Washington's pressure Nicaragua enters in late 1981 a period of economic growth, which also results in increased imports, particularly from the US. While in 1982, the United States imported only \$86,9 million worth of Nicaraguan commodities and goods, virtually all in animal and vegetable products, the United States exported over \$117 million (19.0 per cent of all Nicaraguan imports) worth of manufactured goods and commodities to Nicaragua (See TABLE 21).

In 1983, the US continue their policy of pressure on international funding agencies like the World Bank, the International Monetary Fund, or the Inter-American Development Bank <sup>265</sup>. So, for about 18 months the Reagan administration had been successfully vetoing a further \$10 million loan by the Inter-American Bank, only after a switch in the votes of Argentina and Chile - reflecting their attitude towards the US stand in the Falklands war -, Managua became the credit approved.

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<sup>263</sup> Dixon - Under Siege, p.16.

<sup>264</sup> *New York Times*, September 17, 1982, p.IV.15.

<sup>265</sup> Burns - At War In Nicaragua p.32.

In June Washington, again, vetoed successfully a further loan by the Inter-American Development Bank intended for road construction. In this case it did little matter to the US that 42 other members of the bank were in favor of the loan<sup>266</sup>. In 1985, finally, the US block attempts by Nicaragua to have General Agreement on Tariffs and Trade and up to the present the matter has remained undecided<sup>267</sup>.

## *7.4 Direct Sanctions and Further Economic Deterioration*

The most serious measure against Nicaragua so far was indicated when of President Reagan announced that he would order a review of the sugar quotas for 1984. The vitally important Nicaraguan sugar exports to the US (58.000tons in 1983) earned the country in the previous year \$15,646,000 in badly needed foreign currency<sup>268</sup>. In May 1983 the Nicaraguan foreign minister d'Escoto Brochmann accuses the USA of already having reduced the sugar quotas by 90 per cent inflicting the Nicaraguan economy an annual damage of \$54 million<sup>269</sup>.

In order to underline the seriousness of the US economic policy Washington's pressured Costa Rica to hold a Soviet vessel which was said to carry arms instead of chemicals and iron products. In a

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<sup>266</sup> *New York Times*, June 30, 1983, p.IV,1. The loan to Nicaragua was to be made by the Bank's Fund for Special Operations. It grants 50-year, no-interest credits to the poorest countries in Latin America. The United States has 35 per cent of the vote in the fund, enough to effectively veto action, since loans by the fund require two-third affirmative vote.

<sup>267</sup> *New York Times:ecit*, May, 30, 1985, p.1.

<sup>268</sup> *New York Times*, April 6, 1983, p.IV.9.

<sup>269</sup> *New York Times*, May 10, 1983 p.14.

similar incident a US destroyer hailed a Soviet ship inquiring of the vessel's destination and cargo<sup>270</sup>.

Shortly after this, Reagan issued a warning to Cuba, threatening to intercept arms-shipments from Cuba to Nicaragua, respectively to establish a military quarantine around Nicaragua<sup>271</sup>.

In the second quarter of 1983 Nicaragua is entering a phase of sever economic deterioration causing acute shortages of daily necessities<sup>272</sup> as well as forcing the government to impose new restrictions on outflow and inflow of local and foreign currency<sup>273</sup>. The sanctions imposed by the US government in 1983 had a number of effects on Nicaragua. Due to the country's shortage of foreign currency, it had to reduce its imports drastically, so that only the most urgently needed foreign products and raw materials were imported, causing substantial shortages of paper, soap, electrical products, spare parts for motor vehicles, foreign food, etc. affecting particularly the wealthier middle-class who had a great need for these goods. Much of Nicaragua's reserves in ways of foreign currency had to be expend on costly fuel and crude oil imports, of which about four million gallons were lost in a Contra attack on Nicaragua's oil port Conrinto, which led again to tighter fuel rationing<sup>274</sup>. by the Sandinista government. By fall 1983 the overall damage caused by the Contra-activities exceeded \$70 million<sup>275</sup>. In addition, in 1983 Nicaragua's debt to the Inter- American development Bank reached a new record height of \$3 billion and the country started falling behind in its debt payments. In July, 1984, Nicaragua missed a \$45 million payment and requested to that it may be suspended until June 1984.

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<sup>270</sup> *New York Times*, August 4, 1983, p.6./ *New York Times*, June 9, 1983, p.8.

<sup>271</sup> *New York Times*, July 19, 1983, p.1.

<sup>272</sup> *New York Times*, May 13, 1983, p.1.

<sup>273</sup> *New York Times*, May 30, 1983, p.1.4.

<sup>274</sup> *New York Times*, October 25, 1983, p.25. In a decree to save energy and fuel the junta announced a series of measures to take effect November 1, 1983, which included a cut of the government's fuel ration by 15% and that for most private vehicles by 10%. Parallel to this a reduction of the 5 + -6 day work-week to 5 days was announced. See: *New York Times*, October 25, 1983, p.4.

<sup>275</sup> *New York Times*, July 24, 1984, p.1.

The US-economic boycott also had a negative psychological effect on the Nicaraguan economic climate, so that various foreign investors and representatives of companies with operations in the region expressed their concern about the future development indicating that they might reduce their business activities in Nicaragua. In 1981, for instance, the total investment by American companies alone amounted to \$87 million<sup>276</sup>.

The greatest Nicaraguan problem at the end of 1983, however, was the national food crisis. For foreseeable future, most small and medium producers were unlikely to significantly improve their yields of beans and especially of corn. Efforts to raise fish production as a substitute for beef, were dealt a blow by the mining of the ports in March 1983, which cost the fishing industry a damage of \$9.1 million in damages to boat and cargo<sup>277</sup>. The external economic strangulation of Nicaragua had also taken a heavy toll on food production. The vetoed loans from the World Bank and the IADB on top of world-wide recession had led to drastic price increases complicating the repair of the war-damaged economic infrastructure and the import of essential farm supplies. Additional damage was done by mismanagement respectively by the flooding and the drought of 1982. A major counter-strategy taken by the Nicaraguan government was the extension of the so called *ENABAS* program to soothe the impact of the food-crisis, by the end of 1983, however, one third of the *ENABAS* fleet of grain-transport vehicles were paralyzed for lack of spare parts and many areas could not be provided with the necessary supplies, this all in addition to the fact that some parts, due to war activities, were not accessible at all<sup>278</sup>. In fall 1983 the shortage of meat and fresh milk became so acute that milk had to be rationalized and outside the major cities only rationed portions of milk powder were obtainable<sup>279</sup>.

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<sup>276</sup> *New York Times*, August 15, 1983, p.IV.7.

<sup>277</sup> Collins - What Difference Could A Revolution Make, pp.206-209.

<sup>278</sup> *ENABAS* is an organizational network attempting to guarantee low food prices by undermining speculation and other shortages. By 1984 *ENABAS* set up a network of 8,500 stores to provide affordable basic food at equal prices in all parts of the country. In 1983 *ENABAS* 60 per cent of the wholesale corn market. See also: Collins - What Difference Could A Revolution Make, p.214.

<sup>279</sup> During the entire year when I was working in San Jeronimo in the Province Este Li due to the lack of cooling facilities (storage rooms and vans) no fresh milk was available at all.

"By mid-1984, shortages and irregular supplies of many foods and other basic goods had become commonplace...working class families in Managua found themselves making repeated trips to the local *expedio popular* in order to get their share of the basics at the official prices. At the supermarkets, lines before morning and afternoon openings grew longer and longer, with runs on the stores whenever news of a delivery spread by word of mouth."<sup>280</sup>

In October 1984, shortly before Nicaragua's first general elections<sup>281</sup>, the World Bank cut off \$2 million in loans to Nicaragua because it had fallen behind by 90 days in repaying some of its debt. In total, Nicaragua had in 1984 \$293.6 million in World Bank loans<sup>282</sup>.

Soon after the inauguration of President Ortega the US State Department announces that it would prevent the Inter-American Development Bank from taking up a \$59.9 million loan request by the Sandinista government. At the IADB meeting in Vienna the same year, US Secretary of State Schultz threatened the bank with boycotting executive board meetings which would cause a delay in loan payments to other Latin American nations<sup>283</sup>. After the food-crisis Nicaragua was now also forced to cut back in its social programs. Up to 1985 an extensive housing program had provided accommodation, water and electricity for nearly 100,000 people, but estimates said that overall at least 300,000 housing units would have been necessary. The financial crisis forced the government to cut this program by a third affecting particularly the urban working class and many landless squatters in the Managua area<sup>284</sup>.

In March World Bank documents reported that Nicaragua had become the first country ever to fall six months behind in repaying loans to the World Bank, reflecting the country's debt-problem and budgetary crisis<sup>285</sup>, so that in 1985 the exchange rate for the *cordoba* to the dollar was roughly 400

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<sup>280</sup> Joseph Collins, *Nicaragua: What Difference Could A Revolution Make?* (Institute For Food And Development Policy; San Francisco, Ca. 1986) p.223.

<sup>281</sup> *New York Times*, November 15, 1984, p.1. Election Results: The FSLN wins 63% of all votes cast and 61 of 90 elected seats in the new National Assembly. The voter turnout is said to have been aprox. 1 million.

<sup>282</sup> *New York Times*, October 11, 1984, p.IV.20.

<sup>283</sup> *New York Times*, January 21, 1985, p.IV.2.

<sup>284</sup> *New York Times*, February 18, 1985, p.1.

<sup>285</sup> *New York Times*, March 27, 1985, p.IV.1.

on the black market -- compared to official rate of 10 cordobas, respectively 28 on the parallel market<sup>286</sup>. Nicaragua's GDP per head had fallen by beginning of 1985 by half from \$970 a year to around \$500. Inflation had reached a peak rate of at least 60 per cent and due to increased military expenditures the public sector investment had dropped significantly. In addition, the country was facing a widening trade gap of \$365 million worth of exports as opposed to \$850 million worth of imports<sup>287</sup> (See TABLE 25).

## 7.5 *The Embargo of 1985*

A further heavy blow against Nicaragua frail economy was indicated when the State Department declared that the US would suspend all diplomatic relations and consider imposing an embargo to all trade between the US and Nicaragua<sup>288</sup>. On May 1, the trade embargo was officially announced and went into effect on May 7, concerning all trade between the US and Nicaragua as well as landing and shipping rights of Nicaraguan planes and vessels in the US. Legally the Reagan decision is based on the Economic Powers Act of 1977, requiring that the president has to declare the embargo case a matter of 'national emergency'<sup>289</sup>. Technically the decision is legally disputable, since it invokes a somewhat broad understanding of 'national emergency'. In terms of International Law, Nicaragua viewed the embargo as breach of the Treaty of Friendship and Navigation between the US and Nicaragua (1956), as well as a violation of the OAS charter, two arguments that had been used successfully by Managua successfully at the International Court of Justice.

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<sup>286</sup> *The Economist*, February 2, 1985 p.27.

<sup>287</sup> *Ibid.*

<sup>288</sup> *New York Times*, May 1, 1984, p.1. See also: "US-Embargo: The Real Threat to Nicaragua" *US News & World Report*, December 2, 1985, pp.40-42. "Rising The Stakes", *Time*, May 13, 1985, pp.32-33. "A Struggle On Two Fronts", *Time*, 27, pp.34- 35.

<sup>289</sup> *New York Times*, May 2, 1985, p.10.

The executive order submitted by the State Department, thus, had the following wording:

"By the authority vested in me as President by the Constitution and laws of the United States of America, including the International Economic Powers Act (50 U.S.C. 1701 et.seq.), Chapter 12 of Title 50 of the United States Code.....of the United States Code. I, Ronald Reagan, president of the United States, find that the politics and actions of the Government of Nicaragua constitute an unusual and extraordinary threat to the national security of foreign policy of the US... I hereby prohibit all imports into the United States of goods and services of Nicaraguan origin, all exports from the United States of goods to or destined for Nicaragua except those destined for the organized democratic resistance and transactions relating thereto. I hereby prohibit Nicaraguan air carriers from engaging in air transport to or from the points in the United States, and transactions relating thereto. In addition, I hereby prohibit vessels of Nicaraguan registry from entering into United States ports....."(Text of an executive order, rendered in the *New York Times*)<sup>290</sup>

Simultaneously the 27 year-old US Nicaraguan Friendship Treaty was officially ended.

Due to previous sanctions and the overall tense political relations between the two countries, Nicaraguan trade dependence on the US had decreased sharply 1985 from about 30 percent in 1980 to 17 percent in 1985, so that the embargo had less effect than previously expected. Had it been imposed two or three years earlier it would have probably been devastating to the Nicaraguan system. In 1984 US exports to Nicaragua had totaled \$111.5 million, primarily fertilizers, pesticides, agricultural machinery and spare parts. In return the US imported bananas, shellfish, beef and other products for \$57 million<sup>291</sup>. According to a study by the Washington based Institute for International Economic reports, that newly imposed sanctions would cost Nicaragua about \$58 million<sup>292</sup>. The embargo also forced the state-owned airline 'Aeronica' to cancel its only profitable destination, namely the four weekly flights to Miami, depriving the company of its badly needed source of dollars.

The international community has mainly rejected and denounced the US measures. At the economic summit in Bonn, West Germany and Italy urge Washington to lift the embargo<sup>293</sup>. The British foreign minister Howe and his French colleague issued a statement saying that they "disagree with the American tactic....and...don't want Nicaragua driven to greater dependence on the Soviet

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<sup>290</sup> *New York Times*, May 2, 1985 p.8.

<sup>291</sup> *Journal of Commerce And Commercial*, May 2, 1985, p.1.

<sup>292</sup> "Playing For Time", *Newsweek* May 13, 1985, p.45.

<sup>293</sup> *New York Times*, May 8, p.7.

Union and Cuba<sup>294</sup>. Particularly harsh criticism came besides the Eastern Block from Spain and the Latin American countries<sup>295</sup>. At a conference in Caracas, Venezuela, 25 Latin American nations issued a resolution in the name of the Latin American council to take immediate financial, economic and trade measures to counteract the embargo's effect<sup>296</sup>. Within the US political establishment many Democrats around the House-speaker Tip O'Neill rejected the embargo as 'premature'<sup>297</sup>. Fears also came from US trading companies, that were handling most of the 17 million pounds of cargo moving from Miami to Nicaragua<sup>298</sup>. Their complaint resulted finally in a number of exemptions by the Reagan administration concerning goods that were in transit on May 1, for which no alternative market could be found by an US company or in cases where obligations under a performance bond would be set in motion by non-performance<sup>299</sup>. But generally it was not believed that the embargo would do any harm to US companies engaged in trade with Nicaragua, in addition there is also a strong indication that companies had been given notice about the imminent US move<sup>300</sup>. The only country which, to some extent, backed the US embargo on Nicaragua was Canada assuring Washington that it "would not allow Nicaragua to short-circuit the U.S.trade-embargo"<sup>301</sup>. The Canadian- Nicaraguan trade volume is with \$70 million approximately half of that with the US<sup>302</sup>.

Publicly Nicaragua was trying to play down the effect of the embargo and public officials said that the country would try to find alternative markets as well as seek stronger cooperation with other

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<sup>294</sup> *New York Times*, May 4, 1985, p.1.

<sup>295</sup> *New York Times*, May 3, 1985, p.6. See further: "Weighing the Felipe Factor", *Newsweek* May 20, 1985 p.40.

<sup>296</sup> *Journal of Commerce and Commercial*, May 16, 1985, p.4.

<sup>297</sup> *Ibid.* p.4.

<sup>298</sup> *Journal of Commerce and Commercial*, May 2, 1984, p.1.

<sup>299</sup> *New York Times*, May 8, 1985, p.7.

<sup>300</sup> "Insurers Were Ready For Nicaraguan Events", *Journal of Commerce and Commercial* May 2, 1985, p.5.

<sup>301</sup> *Journal of Commerce and Commercial*, May 22, 1985, p.4.

<sup>302</sup> *Ibid.*

Latin American countries, particularly Mexico, or European nations such as Belgium and the Scandinavian nations. Private business men and government spokesmen alike stressed the fact, that the group strongest affected by Nicaragua were the private entrepreneurs who had been the most vocal opponents of the Sandinistas and of which many indicated that they were planning to leave the country<sup>303</sup>. Alfredo Montealegre Callejas, the president of an agricultural products company said:

"This embargo is not against the government. It is against the private sector that has worked independently for the last five years."<sup>304</sup>

The total embargo and the quote reductions of 1984 had a major impact on Nicaragua's sugar industry. The San Antonio sugar-refining company, for example, the largest private corporation in all Central America and employer of thousands of people, had to lay off hundreds of workers when it ran out of spare-parts, sheet metal and tubing-equipment, which was to 80 per cent imported from the US<sup>305</sup>. Although the significance of the US as trading partner had lost some of its importance for the Nicaraguan economy, its geographic proximity as well as favor for certain types of Nicaraguan food- exports such as shrimp, beef or bananas made it difficult to find proper replacement<sup>306</sup>. Another dilemma lay in the difficulty of obtaining spare-parts for US equipment and machinery such as tractors and turbines, this problem hit particularly US-companies like IBM or Exxon that were still operating in Nicaragua<sup>307</sup>. Disastrous was also the effect, also, on the development on the Nicaraguan currency in 1985 the unofficial exchange rate with US- Dollar reached the 2000 Cordoba level, so that Nicaragua is in 1986 forced again to devaluate the currency to 70 to the dollar. Nicaraguan laborers had lost 60 per cent of their purchasing power since 1979. In-

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<sup>303</sup> *Journal of Commerce and Commercial*, May 14, 1985, p.4.

<sup>304</sup> *Ibid.*

<sup>305</sup> *New York Times*, May 12, 1985 p.7.

<sup>306</sup> Many of Nicaraguan shipments of bananas to Belgium and other European countries perished before they reached their destination, besides, EEC-countries have fixed agreements with African and Mediterranean nations concerning exports and imports of tropical fruits and coffee. Shrimp, the most-profitable export-product to the US, enjoy little popularity in Europe.

<sup>307</sup> *The Economist*, May 4, 1985, p.28.

flation exceeded 600 per cent in 1985 and the enormous budget-deficit amounted to 23 per cent of GDP<sup>308</sup>.

## 7.6 *Nicaragua After the Embargo*

In order to counter the effect of the embargo Nicaragua decided to open purchasing offices in various Latin American countries as well as in Canada. Further measures consisted in finding new suppliers in Brazil, Mexico and Canada. An area particularly vulnerable to the sanctions was the Nicaraguan health system, since most supplies (70%) in terms of medicine and equipment for hospitals and the various health campaigns came from the US and Nicaraguan health officials were concerned that the system might be, at least temporarily, disrupted. But Sandinista representatives also mentioned that the economic situation of Nicaragua had already deteriorated so much that the embargo could hardly make matter much worse, in return by breaking all economic ties the US did also surrender much of its economic influence<sup>309</sup>. In its efforts to publicly denounce the embargo Nicaragua also appealed to the U.N.council<sup>310</sup>. A further strategy consisted in seeking closer economic relations to Japan. Besides financial aid Nicaragua was especially interested in Japanese technology in order to obtain modern mining equipment<sup>311</sup>, since frequent Contra attacks and the US sanctions had Nicaragua's mining industry nearly brought to a complete standstill. According to governmental officials the country possessed nearly 10 million tons in gold and silver reserves. By 1986 it was planned to extract 450 ounces a day, generating nearly \$1.5 million in export re-

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<sup>308</sup> *Wall Street Journal*, February 4, 1986, p.34.

<sup>309</sup> *Ibid.*

<sup>310</sup> *New York Times*, May 9, 1985, p.2.

<sup>311</sup> *American Metal Market:ecit.*, December 17, 1985, p.9.

venue. With a proper equipment, however, the mines would have a capacity to produce 20,000 ounces per day with an annual market value of over \$8 million<sup>312</sup>. After the Soviet Union had provided \$40 million for a five-year exploration project, also Sweden, Cuba, Peru, Mexico and Brazil were considered as possible partners for joint mining ventures<sup>313</sup>.

From 1985 to 1987 basically four factors have kept Nicaragua's economy going. First, the ability gain access to new markets and to find new trading partner and sources, a key-role here is played by the Soviet Union and other East European countries. After Nicaragua had obtained observer status with the COMECON, it now also asked for 'comprehensive economic integration', a plan, however, to which the USSR has shown reluctance so far<sup>314</sup>. The second factor keeping Nicaragua afloat is foreign credit, which Nicaragua has successfully managed to finance its \$200 million (1895) deficit<sup>315</sup>.

A further crucial element for Nicaragua's economic survival lies - as already pointed out in Chapter 1 - ironically in its dependence on about 40 multinational corporations, that are still active in the country. The fourth factor in Nicaragua's survival strategy is the present international coffee boom, which the Sandinistas are trying to benefit from - Chapter 1 provides a detailed analysis of Nicaraguas troublesome dependence on coffee.<sup>316</sup> The US economic strategy so far has consisted in three different steps. First US aid was drastically reduced in order to prevent an initial recovery of the war-stricken economy. This move made Nicaragua increasingly seek financial aid from international agencies, such as IADB or World Bank. From 1982 to 1986 the US have been pressuring (mostly with success) these institutions to deny Nicaragua's loan requests. In response to this Nicaragua turned to other countries directly (See TABLE 22). Finally, Washington resorted to

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<sup>312</sup> *American Metal Market*, September 13, 1985, p.5.

<sup>313</sup> *American Metal Market*, December 17, 1985, p.9.

<sup>314</sup> *The Economist*, August 23, 1986, p.36.

<sup>315</sup> *Wall Street Journal*, February 4, 1986, p.34.

<sup>316</sup> *Wall Street Journal*, January 21, 1986 p.32.

embargo of 1985, which was probably not the most effective step yet - Washington could still freeze Nicaraguan assets and savings in the US or it forbid US companies and subsidiaries to operate in Nicaragua - but the most drastic economic measure so far.

## 8.0 Conclusion

"In sum, the Sandinist Revolution was something new and innovative - a blend of nationalism, pragmatic Marxism, and Catholic humanism. In all likelihood, that is precisely why it was so threatening to conservative ideologues in the United States. Small wonder they were working so tenaciously to try to destroy this unusual experiment." (Thomas W. Walker<sup>317</sup>)

The Nicaraguan experiment is in many ways a peculiar, if not to say a unique model. It does not really fit into the current main stream conceptions of democracy and revolution. It claims to be socialist and anti-imperialistic. Its rhetoric is radical. And as we have seen, the Sandinistas are capable of applying crude authoritarian measures if they feel threatened or meet resistance. On the other hand they have also shown patience and a profoundly democratic attitude in situation where one would not have expected it. They have often publicly committed themselves to maintain a pluralistic economic and political system. One is tempted to say the Nicaraguan system is a contradictory chaos consisting of a little bit of everything, a little socialism, a little capitalism, a little formal democracy, a little popular democracy, a portion of nationalism, a portion of internationalism and everything combined with a 'dash' of grass-roots catholicism. The reality is certainly more complex, but in its heterogeneity the Nicaraguan systems reflects much of the variety, contradictoriness and richness of Latin American culture and tradition. This may be one of the

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<sup>317</sup> Nicaragua - the First Five Years, p.24.

reasons for the Sandinista's initial success and popularity. Western analysts should be cautioned not to uncritically apply well-organized political and economic patterns as yard-stick for measuring the diffuse nature of the Sandinista conception of state and democracy.

The virtue and success of the Nicaraguan model lies in three major achievements:

- First, its successful revolution overthrew one of the most brutal dictatorships in Latin American history. In addition, it managed to remove the pre-revolutionary structure so radically that organized Somocist resistance had to be created artificially abroad in Miami, Costa Rica and Honduras. Nevertheless, the Sandinistas refrained from revenge and violent outbursts against former oppressors, which has followed so many other revolutions. In other words, the Nicaraguan Revolution was more radical than 'democratic' changes of power such as in Portugal or the Philippines, but it was much more moderate than most socialist revolutions, such as Vietnam, Cambodia, China or Russia.
- Second, an enormous political and social mobilization of the people was successfully organized. Extensive education projects were designed to make the disadvantaged rural population aware of their rights and possibilities. The true function and final direction of the Sandinista mass-movements, as we have seen, is not completely clear yet. They also enjoy less autonomy and freedom than the Sandinistas have often claimed, but on the other hand they have provided opportunities for thousands of Nicaraguans to take part in political decision-making and to bring political pressure to bear, particularly on a local or regional level. These accomplishments are very rare compared to other countries in Latin America.
- Thirdly, the country has made great social progress under the Sandinistas. Thousands of small peasants and former *campesinos* that could not afford health care or education some eight years ago are much better off now. People living in a state of total impoverishment and marginalization were exposed to the arbitrariness of cruel dictatorship (that went as far as to sell Red Cross blood donations for earthquake victims to the US for their war in Vietnam)

have now access to free social welfare system. Nicaragua used to be run like a big company, where the population's only function was to provide cheap labor. Now, social programs are trying to give these people an identity, a future. One of the most striking things about talking to many poor rural Nicaraguans is still their deeply ingrained belief in their own inferiority, inability and worthlessness.

In analyzing the Sandinista model we have encountered many systemic problems and contradictions that make the model particularly vulnerable to foreign pressure. Some of these systemic problems arise out of policy failures, others are of a more fundamental systemic or conceptual nature. There is the contradiction between promoting private investment and the introduction of socialist economic forms, between the establishment of one party hegemony and the attempted maintenance of a pluralistic society with formal democratic institutions and procedures. Then we encounter a contradiction between the FSLN's self-understanding as a revolutionary movement aimed at aiding similar emancipatory efforts in the region and the attempt to project an international image as of non-alignment and non-interference. Furthermore, there is the contradiction between the anti-imperialist Marxist tradition of the FSLN and its attempts not to alienate the US government upon whose economic assistance and tolerance the success of the Nicaraguan experiment was based. There are even factional contradictions deep within the FSLN itself, creating additional confusion and instability. A further inconsistency is the commitment of maintaining the middle-class and the private sector, upon whose co-operation the current system depends, while at the same time alienating them by restricting their political and economic power as well as using their resources in order to provide for the needy. The Sandinista economic policy, due to inflexibility and bureaucratization, has also entered a severe crisis, jeopardizing many of the social programs. Finally, there is also an unjustifiable military build up draining off resources from the social and economic sector.

In sum, the Reagan administration's policy designed to overthrow the Sandinista regime finds ample opportunities to derail the Nicaraguan model. The underlying concept is to destabilize and undermine the Nicaraguan system by aggravating already existing systemic problems and difficulties. Most analysts have agreed that Washington's sanctions policy particularly has aggravated the

middle-class and the private sector, which is confronted with supply-shortages of foreign and domestic consumer goods, spare parts, machinery, etc. Washington's military threat and Contra subversion made the Sandinistas turn Nicaragua into a besieged camp (and here the Sandinistas prove to be Washington's most willful allies), by restricting civil liberties, the free press, imposing the draft, allocating two thirds of the country's resources to the national defense and finally seeking the help of Cuban, East German and Soviet military advisors. With all these moves the middle-class has become further alienated from the Sandinistas.

The Contra war and to a lesser extent Washington's economic pressure, turned out to be damaging to the social programs. The Contras have systematically launched attacks on schools, killing and kidnapping teachers and school children, as well as conducted operations against health centers and co-operatives so that hundreds of these projects had to be abandoned. There is now also an increasing war-weariness among the population, a population that might ultimately come to the conclusion anything and any system is better than the present situation.

It is needless to speculate what would have become of Sandinist revolution if the Sandinistas had had more international support. An ever increasing part of the originally conceived model seems to disappear. There is now a growing number of political prisoners. Amnesty International reported about single cases of torture. In order to survive many small farmers in remote areas have no alternative but to support the Contras. The growth of the state bureaucracy, the military and the security apparatus may already have reached irreversible proportions. Maybe the greatest disappointment in context with the Nicaraguan revolution is the Sandinista's failure to fundamentally alter the country dependency structures. In economic respect Nicaragua continues to be 'banana republic' depending on the export of low profit raw materials in exchange for costly imports. The internal dependence on a few remaining largeholders and the major private companies is growing. Externally Nicaragua's continued reliance on loans and development aid might become a major future problem. In view of Nicaragua's constant repayment-difficulties, while simultaneously expanding its military capacity, creditors are becoming less and less willing to provide the financial support the country needs to maintain the current political and social system. The US economic

sanctions have increased Nicaragua's dependence on multi-national companies to a pre-revolutionary level. Nicaragua experienced only two years of democratic freedom and relative internal peace (too little time for these processes to grow and consolidate) after it endured more than 50 years of oppression and after witnessing another 6 years of restricted political freedom and internal turmoil - one must wonder if the US have not already triumphed?

## *Appendix*

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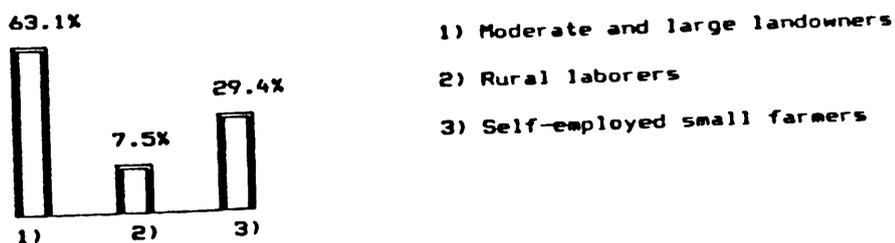
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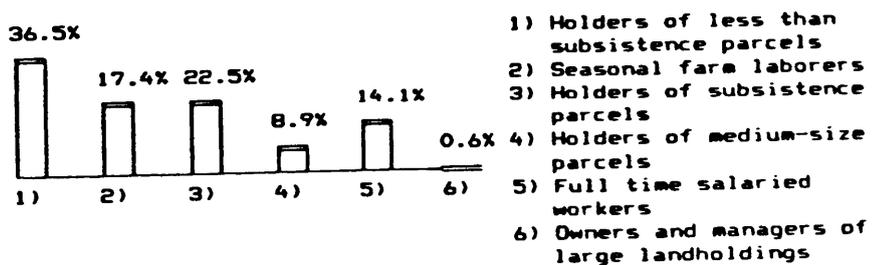


# Tables

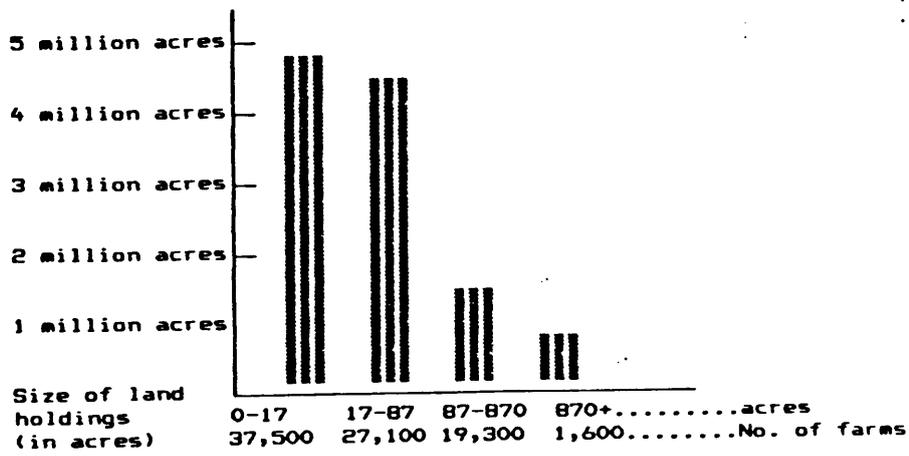
**Table 1: Distribution of Rural Income (1972):**



**Table 2: Agricultural Population of Nicaragua (1978):**



**Table 3: Distribution of Landholdings by Size (1971):**



Data Source: Collins, "What Difference" pp.154-156

**Table 4: Education and Other Social Indicators:**

	1978	1982
Illiteracy Rate.....	50.35	12.07
Education Expenditures*.....	341,024	1,159,876
Percentage of GNP for education...1.32		4.25(1981)
Total Students.....	501,660	1,000,103
Adult Education.....	n.a.	242,587
Vaccinations.....	810,000	1,740,000(1981)
Health Budget.....	373,000	1,231,000(1981)

\* in thousands of cordobas  
 Data Source: Envio 13, Instituto Historico Centroam.  
 Managua, July 1982? Programa Bienestar Social

**Table 5: Daily Wages for Agricultural Workers Compared to Consumer Prices Indices (1977-82)  
by Agricultural Season:**

	1978-79	79-80	80-81	81-82
Total wage paid for those not receiving meals and lodging	20.73	20.73	30.73	40.00
Percent increase in wages (1978-79 base year)				
Current	0	48.2	95.1	95.2
Cumulative	0	48.2	95.1	95.2
Percent increase in consumer prices (1978-79 base year)				
Current	48	35.0	35.0	35.0
Cumulative	48	99.8	169.7	264.1
Percent gain (loss) in real income (1978-79 base year)				
Current	(34.4)	13.1	2.6	26.6
Cumulative	(34.4)	25.8	22.7	46.9

Source: International Monetary Fund (IMF), International Financial Statistics Yearbook 1982 (Washington, D.C.: IMF, 1982)/

Notes: No Reports after 1983/ Prices in Cordobas.

**Table 6: Growth of GDP:**

ANNUAL GROWTH RATE OF GDP:	1976-79	80-81	82
	x	x	x
OECD Countries	4.2	1.3	0.1
All LDCs	5.1	1.7	-0.1
Latin America	5.5	4.6	-0.9

Source: IMF, Int. Financial Statistics (75-83)

Table 7: Capital Flow to Central America:

NET CAPITAL FLOW TO LATIN AMERICA:					
1974	75	79	80	81	82
130	128	201	206	224	145

Based on 1973 index=100  
Source: CEPAL Rev.# 19/ECLA estimates

Table 8: Nicaragua's Terms of Trade in Goods:

TERMS OF TRADE AND PURCHASING POWER OF EXPORTS OF GOODS (Indexes: 1970 = 100, and growth rates)						
Country	Terms of trade in goods			Purchasing power of exports of goods		
	1981	82	82/81	81	82	82/81
Mexico	174	158	-9	550	600	9
Brazil	56	54	-4	185	165	-11
Costa Rica	82	81	-1	141	143	1
El Salvador	91	93	2	109	105	-4
Guatemala	74	73	-2	139	133	-4
Honduras	95	96	1	143	134	-6
Nicaragua	83	79	-4	86	78	-9

Source: CEPAL Rev.# 19/ECLA estimates

Table 9: Nicaragua's Economy in the First 3 years after the Revolution:

in million dollars	1978	1979	1980	1981
Total Consumption	2001.6	1499.6	2119.7	2052.0
G D Investment	299.7	-102.0	342.9	537.0
Import: Goods/Services	882.4	1012.0	841.0	944.5
Export: Goods/Services	703.0	571.0	1280.7	1329.3
GDP: Gross	2480.7	1838.7	2022.9	2204.1
GDP: per capita	1003.4*	-----	835.2	888.8

\* data from 1970  
Source: Inter American Development Bank/report 1982

**Table 10: Stabilization Aid To Central America**

**As % of Total Aid and Government Budgets (1985):**

	Stabilization Funds (ESF & PL480 Title I)*	As % Total US Aid (millions \$)	As % Government Budget
Belize	\$14	65%	22%
Costa Rica	181	90	34
El Salvador	334	78	57
Guatemala	34	35	3
Honduras	162	77	27
Nicaragua	0	0	0
Panama	50	73	4
ROCAP **	98	61	NA

Source: Elizabeth Hunt, AID, October 1985; IDB.

\*)ESF=Economic Support Funds/PL480=Food for Peace (food assistance under the Title I government to government program.

\*\*)ROCAP is AID's regional office in Guatemala City

**Table 11: Direct Stabilization Funding by US Government 1981-85, Amounts in million \$:**

	ESF	PL480 Title I	Total
Belize	24	0	24
Costa Rica	473	90	563
El Salvador	705	183	888
Guatemala	22	28	50
Honduras	280	51	331
Panama	50	0	50
ROCAP	99	0	99
Region Total	1715	352	2067

Source: US Overseas Loans and Grants July 1, 1945-September 30, 1984, AID; Elizabeth Hunt, AID, October 1985.

Table 12: US Security Aid to Four Central American Countries As Percentage of Total US Aid (\*\*)  
to These Countries 1979-86(\*):

	1979	80	81	82	83
Costa Rica total:	17.9	16.0	15.3	53.8	218.7
% of security ass.:	-	-	-	41.1	73.9
El Salvador total:	11.4	64.2	149.5	264.2	326.9
% of security ass.:	0.0	23.4	53.8	74.6	67.7
Guatemala total:	24.7	13.0	19.0	15.5	29.7
% of security ass.:	-	-	-	-	33.7
Honduras total:	31.4	57.0	45.3	112.0	138.5
% of security ass.:	7.3	6.8	19.6	60.8	75.3
Total aid	85.4	150.2	229.1	445.5	713.8
% security ass.:	2.7	12.6	39.0	64.5	69.7

(\* ) Total aid in US \$ million, at current; years are fiscal years.

(\*\*) Total aid here includes aid, Food for Peace and other economic assistance, Economic Support Funds and Military Aid.

SOURCE: SIPRI yearbook 1986, p.310.

Table 13: US Security Aid to four Central American Countries as Percentage Of Total US Aid To These Countries:

	1984	85	86R
Costa Rica total:	179.0	217.0	190.1
% of security ass.:	77.7	77.9	80.3
El Salvador total:	412.5	454.3	483.4
% of security ass.:	98.7	71.1	70.9
Guatemala total:	20.3	74.1	87.5
% of security ass.:	0.0	17.3	40.3
Honduras total:	286.5	201.4	246.2
% of security ass.:	66.3	68.2	68.4
Total aid	898.3	947.0	1007.2
% of security ass.:	81.9	67.8	68.4

R - request;

SOURCE: as table above;

Table 14: Military Expenditures in Central America I:

MILITARY EXPENDITURES AS PERCENTAGE OF GNP, 1976-84					
	1979	80	81	82	83
Costa Rica	0.7	0.7	0.8	0.8	(0.8)
El Salvador	(2.0)	2.8	3.7	4.4	(4.9)
Guatemala	1.7	1.8	1.9	[2.4]	(2.9)
Honduras	2.3	3.5	4.5	[5.0]	(6.0)
Nicaragua	[3.1]	4.4	[5.0]	[5.9]	[9.6]

Table 15: Military Expenditures in Central America II:

MILITARY EXPENDITURES AS PERCENTAGE OF GNP,		
	1984	( ) uncertain data
Costa Rica	(0.8)	[ ] estimate with high degree of uncertainty
El Salvador	(4.9)	
Guatemala	(2.9)	
Honduras	(6.0)	
Nicaragua	[11.7]	

SOURCE: SIPRI yearbook 1986

Table 16: Size and Growth of armed Forces:

	1979	80	81	82	83	84	85	Increase (%)*	annual growth (%)**
C.Rica.	3.0	4.0	5.0	6.0	7.0	9.5	12.6	320	27.0
El Salv.	11.0	12.0	15.9	25.0	30.0	37.5	43.0	291	25.5
Guatem.	14.0	16.0	19.0	22.0	25.0	30.0	40.0	186	19.0
Hondur.	12.0	14.0	15.0	16.0	23.0	25.0	36.0	150	16.0
Nicara.	13.0	15.0	20.0	25.0	35.0	45.0	60.0	362	29.0
TOTAL	53.0	61.0	75.0	94.0	120.0	147.0	186.0	260	23.0

\*) Increase of armed forces '79-85/ \*\*) Average annual growth of armed forces '79-85.

Source: SIPRI Yearbook 1985.

Table 17: The insurgency forces, 1979-85 (in thousands):

Country	1979	1985	Growth (%)
El Salv.	3.0	>10.0	>230
Guatem.	8.0	2.0	-75
Hondur.	0.1	> 0.2	insignificant
Nicara.	4-6	10-15	150

Source: SIPRI yearbook 1986, p.529.

Table 18: Destruction Due to Contra War:

Destruction Due To the Contra Warfare (in Mio. Dollars) 1982-83:	
Destruction of Material.....	14.6
Damage to Production.....	36.2
Idle Capital*.....	10.4
<b>Total.....</b>	<b>61.2</b>
War Losses in Agriculture	
Agriculture.....	13.54
Livestock.....	1.31
Equipment/Machinery.....	1.01
Infrastructure.....	0.03
<b>Total .....</b>	<b>24.89</b>

Idle Capitals refers to exports that could not take place/ Source: Dixon, "Under Siege" pp.35-38

Table 19: Nicaraguan Exports to the US:

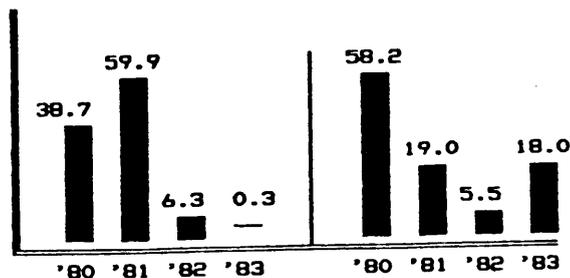
NICARAGUAN  
EXPORTS TO THE US in 1982: (in million Dollar)

Sugar.....	15.6
Beef & Veal.....	32.0
Shellfish.....	14.5
Bananas.....	9.5
Other.....	14.7
<b>Total.....</b>	<b>86.9</b>

(as opposed to \$117.6 million worth of imports from the US)  
(Source: New York Times April 6, 1983)

**Table 20: Change in US Assistance and Nicaraguan Debt Management:**

CUTS IN US ASSISTANCE(1) VS. DEBT MANAGEMENT(2)



(Source: Agency for International Development/World Bank)

(1) Total United States aid to Nicaragua for fiscal year/ending Sept.30, in million of dollars.

(2) Amount of Nicaraguan debt owed to commercial banks renegotiated during the year, in million of dollars.

**Table 21: US Nicaraguan Trade at the Time The Embargo Was Imposed:**

(Figures for 1984 in Million US-Dollar):

<u>CHIEF EXPORTS TO US:</u>		<u>CHIEF IMPORTS FROM THE US:</u>	
Bananas	23.5	Machines, Tools, Parts	45.70
Beef & Veal	9.8	Fertilizers	15.40
Shellfish	9.7	Insecticides	9.15
Coffee	5.5	Packing Material	4.72
Molasses	2.2	Soybean Oil	4.47
Other (including sugar)	6.3	Tallow	4.28
<b>Total</b>	<b>57.0</b>	Other	27.78
		<b>Total</b>	<b>111.50</b>

Source: U.S.Commerce Department/Journal of Commerce & Commercial

Table 22: Loans and Lines of Credit to Nicaragua during 1979 and 1984:

In Million US Dollars:		
<u>Multilateral Lending Organizations:</u>	Amount	Percent
Central bank for Economic Integration.....	125.9	
World Bank.....	106.1	
Inter-American Development Bank.....	256.7	
Others.....	143.5	
<b>Total</b>	<b>632.2</b>	<b>24.6%</b>
<hr/>		
<u>Official Bilateral Loans and Credit (USA, Western Europe):</u>		
USA.....	72.6	2.8%
<hr/>		
Spain.....	81.9	
Holland.....	64.6	
France.....	64.4	
West Germany.....	25.8	
Canada.....	15.7	
Finland.....	13.1	
Austria.....	12.7	
Italy.....	5.4	
Sweden.....	4.8	
<hr/>		
<b>Total (Western Europe)</b> .....	<b>288.1</b>	<b>11.2%</b>
<hr/>		
<u>Latin America:</u>		
Mexico.....	564.6	
Venezuela.....	64.6	
Brazil.....	50.2	
Argentina.....	47.8	
Peru.....	10.0	
Colombia.....	4.5	
Costa Rica.....	37.0	
Honduras.....	25.0	
<hr/>		
<b>Total Latin Americana</b> .....	<b>803.6</b>	<b>31.3%</b>
<hr/>		
<u>Socialist Countries:</u>		
USSR.....	262.2	
GDR.....	140.0	
Yugoslavia.....	25.0	
Bulgaria.....	60.0	
Czechoslovakia.....	30.0	
Hungary.....	5.0	
Cuba.....	53.4	
Korea.....	30.0	
<hr/>		
<b>Total Socialist Nations</b> .....	<b>605.6</b>	<b>23.6%</b>

Table 22, Continued:

<u>Africa and Asia:</u>		
Libya.....	100.0	
Taiwan.....	6.0	
China.....	7.0	
Iran.....	26.8	
<b>Total Africa and Asia.....</b>	<b>139.8</b>	<b>5.5%</b>
<u>Suppliers:</u>		
Italy.....	24.6	1.0%
<b>Grand Total.....</b>	<b>2,566.5</b>	<b>100%</b>

Table 23: Nicaraguan Exports 1979 - 1982:

<u>EXPORTS</u> Markets	1978	81	82	84
Central America Common Market	22.6	13.9	12.8	7.3
Association for Latin American Integration	0.5	2.1	3.6	---
EEC	27.9	19.4	23.6	21.0
U.S.	23.2	25.8	24.2	14.7
COMECON	0.2	7.6	6.2	5.5

Data Source: "Nicaragua Under Siege"  
EIU "The Economist Intelligence Unit" 1987

Table 24: Nicaraguan Imports 1979-1982:

<u>IMPORTS</u>					
Markets	1977	81	82	84	
Central American Common Market	23.1	21.1	15.1	15.4	
Association for Latin American Integration	14.4	26.0	27.2	---	
EEC	14.1	26.3	19.0	12.3	
U.S.	30.8	26.3	19.0	13.4	
COMECON	0.7	3.3	11.5	12.1	

Data Source: "Nicaragua Under Siege"  
EIU "The Economist Intelligence Unit" 1987

Table 25: Consumer Prices:

	1980	81	82	83	84	85
Index 1980=100	100.0	123.9	154.6	202.6	274.4	876.7
% change		35.3	23.9	24.8	31.0	35.4

Source: IMF International Financial Statistics.

Table 26: Foreign Trade USSR - Latin America:

Colombia	Turnover:	33,7	22,8
	Export:	15,3	12,5
	Import:	30,1	19,8
Cuba	Turnover:	5737,4	6762,9
	Export:	2784,6	2875,6
	Import:	2952,8	3887,3
Mexico	Turnover:	15,4	14,7
	Export:	1,2	4,1
	Import:	14,2	10,6
Nicaragua	Turnover:	98,8	152,1
	Export:	98,8	151,9
	Import:	0,1	0,2
Panama	Turnover:	7,8	8,5
	Export:	7,7	8,5
	Import:	0,1	-
Peru	Turnover:	25,7	88,4
	Export:	11,2	6,7
	Import:	14,5	81,7
Uruguay	Turnover:	52,1	87,7
	Export:	11,4	33,1
	Import:	40,7	54,6

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## The Sandinista Model of Socialism and the US Policy Towards It

by

Reinhard Heinisch

(ABSTRACT)

The current policy of the Reagan administration is designed to overthrow the Sandinist system in Nicaragua. The Nicaraguan revolution has produced a fascinating model of Socialism, in which the Sandinistas are trying to combine elements of pragmatic Marxism, Catholic humanism and revolutionary nationalism. In the first three years after the revolution, the Sandinist government was fairly successful and the country made enormous social and political progress. In 1983 Nicaragua entered a severe systemic crisis, which has been aggravated by the economic and military policy of the Reagan administration. This paper argues that the US counter strategy is based upon a number of contradictions and inconsistencies inherent in the Sandinist system.

The main targets of the US strategy are the social accomplishments that provided the FSLN's popularity among the rural population, as well as the middle-class upon whose co-operation the success of the Sandinista model depends. The US strategy consists of three components: a) economic sanctions, b) overt and covert military threat, and c) additional supportive policy measures.

This paper is a preliminary analysis offering suggestions and direction for future research.