Issues of State and Market: From Interventionism to Deregulation of Food Markets in Nicaragua

MAX SPOOR*
Institute of Social Studies, The Hague

Summary. — The transition from “interventionism” toward “laissez-faire” policies vis-à-vis agricultural and food markets in LDCs is examined by focusing on the changing role of the state toward the market. It is concluded that both sets of policies and underlying theories were (and are) not founded on an analysis of the real dynamics of markets. It is argued that a new type of state intervention is needed which will actually promote the development of agricultural markets. At a concrete level the transition from interventionist policies toward liberalization and deregulation of markets and their outcomes are analyzed in the case of Nicaragua, comparing the post-1979 period under Sandinista rule with that of the post-1990 epoch under the UN0 government.

1. INTRODUCTION

This paper analyzes the apparent dichotomy of “state versus market” in terms of the transition from interventionism toward liberalization and deregulation policies, with particular reference to staple food markets in Nicaragua. It attempts to contribute to a renewed debate on the role of the state in the development of agricultural and food markets, after the pendulum movement during the 1980s has swung from the “public interest view” and “market failure” to the “private interest view” and “bureaucratic failure” (Mackintosh, 1992; Ellis, 1992). Indeed, after more than a decade in which privatization, liberalization and deregulation have become the catchwords of policy makers and economic theorists, the mixed outcomes of structural adjustment programs in less-developed countries (LDCs) and market reforms in former socialist countries have led to considerable doubt about the effectiveness of a blueprint state withdrawal from the market (ECLAC, 1990; Mackintosh, 1990; Timmer, 1991; Hopkins, 1991; Harriss and Crow, 1992; Hewitt de Alcántara, 1992). Therefore, the objective of this paper is not to show that market liberalization and deregulation are not necessary, but that they have been or are implemented without analyzing the real dynamics of markets or recognizing that markets are institutions that emerge and function in a particular social and political context. I will argue that new forms of state intervention or reregulation should be considered, not only in order to “let markets work” but also to support generally accepted development principles of economic growth, equity and sustainability. By analyzing the case of Nicaragua I show the adverse impact of interventionism and also the unintended but not less detrimental effects of laissez-faire policies at a concrete level. Nicaragua exemplifies a double transition in a relatively short time span, in terms of political systems and economic policies. The pre-1979 market economy was characterized by a process of resource monopolization by the ruling Somoza elite. It passed through a decade of the Sandinista revolution (1979–90), during which state intervention in markets was omnipresent, while new — and more diversified — rent-seeking groups were being formed within the state. Finally, it entered — after the February 1990 elections — into a process of market liberalization and deregulation in which the public sector plays a much more limited role, but with renewed linkages between some major market agents and the government of the UNO (Unión Nacional Opositora). These changes took, and are still taking place, under very difficult circumstances of social

*The article is based on research undertaken in a long-term assignment (1986–90) at the UNAN in Managua, and two following research visits in July 1992 and May 1993. A more comprehensive study on state intervention and laissez-faire policies in agricultural markets is Spoor (1994). The text of this article has greatly benefited from the comments made of Marc Wuyts, Michael Ellman, Carmen Diane Deere, Miguel Teubal, and two anonymous referees made on earlier drafts of this paper. Final revision accepted: October 24, 1993.
upheaval, from the popular uprising in 1977–79, aggravated by war conditions during the Sandinista period, and continues in other forms under the UNO government. State intervention in markets, translated into macro and sectoral economic policies, are therefore to be understood within the context of ongoing intense political struggle (Utting, 1992). These policies contributed to the overthrow of the Somoza regime, had great impact on the outcomes of the revolutionary process, and is determining the ambience of economic policy implementation by the UNO government. It is difficult to separate different political and economic factors and assess their influence. In addition, the data which are available on agricultural output, marketed surplus, and prices in Nicaragua are of rather dubious quality and therefore only suggest indicating trends. Nevertheless, taking these limitations into account, the sometimes breathtaking developments in Nicaragua during the last 15 years provide a fascinating backdrop to analyze the shifts in economic policy toward agricultural markets and their impact.

In section 2 I will argue that the state-market paradox is more apparent than a real, and that most market reforms do not concern real markets (Mackintosh, 1990; Wuyts, 1992). There is common ground shared by proponents of interventionism and those favoring laissez-faire policies as they deal with markets in an abstract way. Although it seems that the neoclassical proposition of “getting prices right” has now been adapted by its own protagonists into a “getting the mix right” between state and market, I argue that in a LDC context it is not enough to give the state only a “facilitative role” (Paaland and Parkinson, 1991). A more active and “initiative” role is needed, focusing on the problems that have remained after liberalization and deregulation such as those related to food security, market access and market power of the masses of peasant farmers and poor consumers. The current emphasis on reducing or even eliminating state intervention will fail to produce positive results when domestic agricultural markets are not functioning as competitive, efficient or integrated as sometimes is supposed. Under these conditions, food insecurity is only increased by relying exclusively on “the market” (Mackintosh, 1990), rates of growth are not likely to increase, while inequality will. The discussion in this section provides elements to support the position that there is still an important role for the state in promoting the development of agricultural and food markets.

In section 3 the form and impact of state intervention in domestic agricultural markets of food staples in Nicaragua under Sandinista rule (1979–90) is analyzed. This intervention was particularly strong during the first half of the 1980s, when the government used instruments such as overvalued exchange rates, subsidized agricultural credit and inputs, administrative prices, state procurement and food distribution through a parastatal network of urban and rural shops, to steer or even substitute agricultural and food markets. During the last two years of the Sandinista government (1988–90), with the implementation of the Economic Reform Programme (ERP), some liberalization and deregulation of agricultural markets had already been introduced. Earlier interventionist concepts regarding the role of the market and private trade (long seen as enemy rather than as possible ally) remained strongly present within the Sandinista leadership until the demise of their government. In section 3 it is shown that there was a growing inverse relationship between state intervention and real influence over markets. The economic reforms paradoxically brought about renewed state control over the economy, which by the end of the 1980s had been completely lost.

In section 4 I present a preliminary analysis of economic policies implemented during the first three years of the UNO government which took power subsequent to the elections of February 1990 and the impact of privatization, liberalization and deregulation on agricultural and food markets. Although initially food imports and domestic sales were used as an instrument to influence food prices as part of a stabilization policy, the state has practically withdrawn from agricultural markets, including those of rural credit, inputs, extension services and the distribution of consumer goods. Furthermore, Nicaragua opened rather abruptly its borders to Central American markets by eliminating import tariffs, as part of a regional agreement, while the previously existing import and export parastatals were nearly all privatized. Apart from minor improvements in terms of production or marketing, laissez-faire policies toward agricultural and food markets have contributed to stagnation and contraction. In spite of the underlying assumption that an “invisible hand” would let markets work, most agricultural and food markets have become remonopolized by powerful strata of the private (and previous state) sector and are “low volume, high profit” markets with poor infrastructure and low investment levels. Although the debate is still continuing in Nicaragua about the role of the state in terms of market development, in practice the pendulum movement of economic policies has swung to the other extreme of the spectrum, in spite of the fact that the impact has been rather doubtful, contributing greatly to rent-seeking activities and speculative trading.

2. STATE AND MARKET: FROM INTERVENTIONISM TOWARD LAISSEZ-FAIRE

The often proposed state versus market dichotomy, translated into policies of interventionism versus laissez-faire is at least partly a false one. First, by using state and market as monolithic and mutually exclusive concepts the complex interrelationships...
between these institutions at national and local levels are ignored (Hewitt de Alcántara, 1992, p. 12). Neither interventionism, based on the concept of market failure and promoting a public interest view, nor the *laissez-faire* reaction, leading to privatization, liberalization and deregulation, based on the concept of bureaucratic failure and a private interest view, come to grips with these dynamics. Although the form of state intervention implemented during the 1960s and 1970s indeed substantially changed during the 1980s, all governments in developing and developed countries intervene in agricultural markets (Mackintosh, 1990). It is incorrect to think that success stories of economic growth such as South Korea and Taiwan are good examples of noninterventionism. On the contrary, these economies have developed in the presence of strong and continuous state involvement. Second, starting from an abstract view of “the market”, the underlying theoretical frameworks actually share common ground. According to structuralist or Marxist theorists markets are seen as exploitative (with great inequalities in access to and control over resources), and furthermore inefficient, segmented and monopolistic. Therefore, because of the observed market failure, state intervention in markets needs to be introduced, including restrictions on or even banning of private trade. On the other hand, the neoclassical or monetarist schools of economic thought see markets as instruments of allocation of resources: efficient, integrated and competitive. Neither set of theories pertains to the operation of real markets, and both ignore the dynamic and complex nature of agricultural markets, which are not only highly seasonally dependent, but also part and parcel of a system of interlocked markets of land, credit, labor and commodities (Pacey and Paine, 1985; Harriss, 1990; Crow and Murshid, 1992). In contrast to the observed “abstract” conceptualization of markets, agricultural commodities in LDCs are of great significance to the livelihood of the urban and rural masses, and agricultural and food markets represent institutions important in economic development and political stability.

Why states intervene in agricultural markets is mostly explained by a set of economic and political objectives. Food security, surplus transfer, income distribution, poverty alleviation and promotion of political stability are the main ones. These objectives also relate to different roles of the state, which incorporate—often conflicting—interests of competing groups (Hopkins, 1991). LDC governments have prolonged their intervention in agricultural markets because of existing vested interests within the state apparatus. Bates (1989) defends the polemical position that with the implementation of structural adjustment programs, groups in the state apparatus with vested interests reestablished their market control rather than losing it. His point has been underlined by the outcomes of the market reforms of the former socialist countries in which the *nomenklatura* privatization has been prominent. Indeed, the conflict between state and regulated markets was often more “apparent than real,” because of strong mutual interests of merchants and the state (Harriss, 1990, p. 102). This phenomenon is a primary cause of the slow pace with which LDC governments have reformed their state trading sector. There is, however, a general tendency, mostly forced upon LDC governments by the conditionality included in the structural adjustment lending of the World Bank, the International Monetary Fund (IMF) or commercial banks, to implement drastic economic reforms in which a straightforward withdrawal of the state from agricultural markets is seen as crucial for improvement of economic efficiency. In particular, criticism has been directed to food subsidy schemes (supported by parastatal procurement and distribution of food) which existed for most urban populations. Even large-scale (and for some time well-functioning) parastatal complexes such as CONASUPO in Mexico or ADMARC in Malawi have undergone a process of privatization or elimination (Hewitt de Alcántara, 1991; Harriss and Crow, 1992). Previous state intervention in agricultural and particularly food markets has none the less contributed to large bureaucracies, vested interests, corruption, lack of incentives and inefficient forms of marketing. Bureaucratic failure (contrasted with the market failure which preceded interventionism) does not support the argument in favor of drastic withdrawal of the state from agricultural markets as is usually proposed. State withdrawal does not solve the problems of food security and market access of producers and consumers, which were part of the underlying reasons behind interventionism. Reinforcement of private trade is a necessary but not a sufficient condition to improve access of the peasantry and urban consumers to agricultural and food markets. If the existing interlocking of markets of land, labor, credit and crops is strengthened by the withdrawal of the state this access might well decrease, as is can be shown in the case of Bangladesh (Crow and Murshid, 1992).

The state-market debate has not yet resulted in a search for more efficient forms of public intervention in agricultural markets. Certainly the debate has moved somewhat away from the “getting prices right” proposition although in practice the IMF and the World Bank still hammer on that principle in their conditionality of lending. The protagonists of pricism have reviewed this rigid position and are now proposing to get the “right mix” between state and market (Timmer, 1991). Although it seems rather tautological as such this proposition (still defined within the neoclassical paradigm) at least recognizes the limitations of the exclusive emphasis on price-related reforms, implicitly accepting the critique that Streeten (1987) provided on the pricists. It takes as a point of depar-
ture, however, that the market is the main allocative mechanism and motor of growth, while the state has not more than a "facilitative role" to play (Faaland and Parkinson, 1991). Taking real market developments into account and depending on how the state works and what capacity it has, it will have to intervene more actively in cases where markets do not work or are nonexistent, and where deregulation leads to remonopolization. The role of the private sector and indigenous commercial entrepreneurship must be stimulated, but there is no guarantee that markets dominated by private trade will lead to the theoretically conceived "free markets" known for their free entry, information access and numerous agents, guaranteeing open and fair competition. Therefore, states should intervene in agricultural and food markets, although clearly not in the same way as during the epoch of interventionism, searching for policies to complement markets instead of trying to replace them while developing joint public-private interests in markets (ECLAC, 1990). This type of state intervention will help markets play a dynamic role in development based on growth, equity and sustainability. In doing so, the state will in fact stimulate market development and keep its influence in the sphere of production and distribution of certain public goods needed for the protection of those who come to the market in very disadvantageous positions. It is not surprising that in those cases where market reforms under structural adjustment have been successful, deregulation was combined with reregulation (Harriss and Crow, 1992).

Summarizing some of the arguments presented above there are at least three reasons to sustain this position. First, the competitiveness and high degree of integration of agricultural markets, presupposed in most market-type reforms, are more a neoclassical theoretical abstraction than an accurate or realistic description of those markets. Therefore, liberalization and deregulation of markets cannot be used as a general prescription to reform agricultural marketing systems, but reforms must depend on the analysis of the particular dynamics of those agricultural markets. Markets are complex institutions, theaters in which many actors play a social role, and it is not to be expected that blueprint policies of market reform will have straightforward outcomes. Second, the operational capacity (in terms of marketing functions) of the private sector after independence of most LDCs was limited, and was in some cases reduced by state intervention. State intervention has contributed to greater segmentation of agricultural markets, but has also shaped new market structures in situations where markets were underdeveloped. Therefore, the withdrawal of the state from agricultural markets indeed provides the opportunity for the private sector to fill this gap (which de facto it had been doing through parallel markets). There is a tendency, however, of new entries in the market to promote remonopolization and speculative trading, in particular at the wholesale level. Third, current mainstream thinking behind market-type reforms states that markets allocate resources in an optimal way, stimulating growth and development. The argument of Amartya Sen is still valid, that the normal working of markets contributes to food insecurity (Mackintosh, 1990, p. 43). With the rapid process of commercialization of food crops and the increased integration of agricultural producers in agroindustrial processing (often linked to transnational capital), the position of peasant farmers is worsening and consequently a process of concentration of land ownership is induced. The peasantry is forced by new "market conditions" toward forage and export crops and to increase capital intensity in order to improve yields and defend existing income levels, in a situation which is normally characterized by rigid resource constraints. It is questionable whether "the market" is directing resources in such a way that growth is also combined with equity and sustainability. If no attempt is made to reform the distribution of and access to productive resources (other than labor power), and existing power relations remain, both interventionism as well as laissez-faire policies will, ultimately, primarily strengthen those in society who command these resources.

Instead of withdrawing from markets, States should contribute to a process of market development by providing information, licenses, and infrastructural investment and by promoting quality control and standardization. The state should be actively involved in constructing public systems of land registration, solving land disputes, providing land titles while taking into account the transaction costs in processes of privatization (of communal and state lands). In many LDCs land reform is warranted in order to break through the current systems of interlocking markets that may obstruct market access and development, particularly in those former socialist countries with large stateholdings in agriculture. Nevertheless parasitall entities should also enter into competition with the private sector in some key segments of the marketing chain, where they might have advantages of scale or information. It is often assumed that they will disappear because state entities are considered to be inefficient. Furthermore, there are other public goods which should be provided, such as agricultural research, extension services, education and rural credit. Finally, it is crucial that policies stimulating agricultural production are complemented with policies that promote the efficiency of rural marketing systems (Timmer, 1991, p. 12). Rural markets are often considered as marginal to sectoral policy making or left to the "invisible hand", while in fact they are crucial for any success in the productive sphere. Infrastructural investments in roads, market places, communication and transport facilities are fundamental. It is not to be expected that private trade (in partic-
ular of food commodities) will provide the investment funds. Therefore the state should be involved in reestablishing (and financing) private rural trade networks, often disarticulated because of previous interventions. This is needed in order to compete with the informal financial networks that have reappeared, dominated by merchant-landlords or urban wholesale traders. These suggestions are not new forms of blueprint solutions, but can only be concretized when the institutional, social and political context of markets are analyzed. This approach can provide more “pragmatic” forms of intervention (Hewitt de Alcántara, 1992, p. 14) that make markets work, while confronting the problems of food security, access and market power that prompted previous perceptions of “market failure."

3. MARKET INTERVENTION AND SANDINISTA REVOLUTION (1979–90)

(a) State intervention before the 1979 revolution

Under the Somoza regime economic policies related to agricultural markets, however liberal they may have appeared on the surface (because of the free convertibility of the Córdoba, monetary stability and an open character with respect to external markets) were, in fact, far from the case. In fact state intervention supported a model of resource monopolization, in which land, labor, credit, commercial capital and agroindustrial processing capacity were dominated by a small, but powerful ruling elite (Kaimowitz, 1988, p. 117). The state played an important role in promoting economic development with a growing skewness in the distribution of economic power (FitzGerald, 1985, p. 209), intervening in crucial links of the economy, through the financial system, the labor market, and the agricultural commodity market itself. State intervention in agricultural markets under Somoza was directed to guarantee low prices of basic foodstuffs, to stimulate export-led economic growth and industrialization within the context of the Central American Common Market.

Grain markets were dominated by a small class of merchant-landlords. There was also a much larger (and heterogeneous) stratum of independent small merchants, but they were simply participants in the market without having any substantial market power. In general, peasant farmers and agricultural workers were entangled in a network of interlocking markets, which kept them in a marginal position (Pacey and Paine, 1985). These were informal credit, labour, land, inputs and consumer goods markets, which had a substantial degree of articulation, with backward and forward linkages between production, circulation, distribution and consumption (Kaimowitz, 1988, p. 117). In the domestic grain market the state intervened through its parastatal INCEI (Nicaraguan Institute of External and Internal Trade), with the objective of stabilizing seasonal and spatial prices, purchasing a limited percentage of the total grain output, and operating effectively a national bufferstock (Spoor, 1990, pp. 528–529).

(b) State and agricultural markets under Sandinista rule (1979–90)

The Sandinista leadership saw intervention in agricultural markets as crucial to achieve two main objectives: first, to obtain widespread control over the economy as a sine qua non condition to set a state-centered accumulation process in motion, based on “modern sector” linked agricultural and agroindustrial growth, and second, to guarantee food security and income stabilization for marginal consumer strata. In this sense, apart from the revolutionary ideology of the Sandinista Front, state intervention during the Sandinista decade indeed represented clear elements of a socialist strategy. While focusing on the intervention in food staple markets, three main instruments can be observed for this intervention. First, parastatal involvement in procurement, imports, processing, transport and marketing (at wholesale and retail levels) of corn, beans, rice, sorghum and wheat was expanded leading to much more direct intervention in the grain market than the Somoza-regime had done before. This parastatal intervention can be compared to many African cases, and with Mexico, which was actually used as a model for the Nicaraguan case. Second, guaranteed producer prices, subsidized inputs, machinery services and cheap credit were established. Third, state distribution networks were introduced, with administered prices, and were controlled by neighborhood organizations, to provide a greater access to food for low-income groups.

After 1979, the national foodstuffs parastatal ENABAS (Empresa Nacional de Alimentos Básicos), successor of INCEI, rapidly became the largest single buyer of grain, while other private agents could legally buy and sell only at official prices. This legal framework was symbolic of the original position of the Sandinista government, that state intervention was necessary because market failure was obvious. Parallel circuits, however, soon became important for corn, beans and partly for rice, and even became the dominant markets from the mid-1980s onward, because of a growing leakage from the official distribution network. For irrigated rice and industrial sorghum, crops largely produced by commercial farmers, the parastatal intervention was complemented with long-term commercial agreements between the government and the private producers, which obliged them to market a certain share of output
through official channels (mostly in return for the access to cheap capital inputs and credit). In Table 1 the development of the market share of ENABAS for 1980–81 to 1991–92 in the grain market is displayed. These data suggest that the parastatal was capable of dominating grain markets (except in corn) in terms of the procured share of estimated marketed (domestic) output until at least the 1984–85 agricultural season. If one were to include the imports of donated or purchased food staples, the dominant position of ENABAS in the domestic grain market becomes even more clear (MAG, 1991, p. 8).

Nevertheless, official producer prices for corn and sorghum, during the first four or five agricultural seasons after 1979 were so low that producers using traditional technology and having low yields were not able to recover their production costs. This policy reflected a situation where political pressure of the peasantry was still hardly taken into account by the leadership, while on the other hand, urban consumers pressed for low fixed prices. Cash deficits of producer households that consequently arose could only be cleared through debt cancellation, the implicit subsidy of nonindexed interest rates, or outright decapitalization. Nevertheless, during this same period ENABAS’ share in the grain market strongly rose, due to a number of price and nonprice related factors. First, there was initial political support for the government among the peasantry, because of the elimination of the repression by Somoza’s National Guard and as result of the Agrarian Reform which favored peasants and peasant farmers. Second, state procurement was part of a package that was offered to producers, including credit, distribution of inputs and sometimes consumer goods. It was not unusual for state officials to apply ideological or economic pressure in order to channel marketed surplus to ENABAS, targeting in particular the production cooperatives. Third, the pan-territorial pricing policy which was introduced in early 1981 and the increased limitations for private traders to operate legally, brought about a situation in which, for some time, ENABAS effectively became market leader in many grain producing areas. Finally, in spite of low official producer prices, purchasing power was not severely affected because of the availability of consumer goods (often through imports) at controlled prices in the early 1980s, limiting the impact of low producer prices.

By 1984, when the contra war was already raging the countryside, the state distribution system became more and more deficient. Parallel markets had developed everywhere, and purchasing power particularly of peasant farmers was rapidly decreasing. As state distribution of basic consumer goods (such as cooking oil, sugar, salt, kerosene and batteries) in rural areas was much less developed than in urban areas, prices rose rapidly. They moved upward in line with the black market exchange rate for the dollar (see Table 2), well above the strongly overvalued official one. Not surprisingly the peasantry became more and more strangled by the “market conditions” of parallel circuits, in which they were not officially allowed to sell their produce, but where in practice they were forced to buy their consumption necessities. Grain movements were restricted by police-enforced road blocks, discouraging traders and producers from moving grain to urban centers, in spite of the enormous price differential in the “two-tier” price system. The movement restrictions resulted in very limited access for producers and traditional small (rural based) traders to the parallel market, but it is questionable whether large traders (often with an urban base) were really obstructed, as road blocks were not enforced permanently and the officials involved were sometimes open to bribery. Finally, private traders used the official ENABAS price as a yardstick, creating growing marketing margins and opportunities for private commercial accumulation.

The new economic policy which was introduced in early 1985 had as its main objective the improvement of the internal terms of trade of the peasantry. By then, the fighting had become intense in many rural areas of the interior, and the leadership saw a real danger that whole peasant regions would be lost to the contra. The small farmers’ union UNAG also pressured more effectively for reform. The new policy of market inter-

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>20.8%</td>
<td>29.9%</td>
<td>33.2%</td>
<td>31.7%</td>
<td>39.5%</td>
<td>38.8%</td>
<td>22.0%</td>
<td>24.7%</td>
<td>20.0%</td>
<td>21.3%</td>
<td>14.7%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Beans</td>
<td>49.1%</td>
<td>50.9%</td>
<td>69.9%</td>
<td>52.4%</td>
<td>32.6%</td>
<td>17.9%</td>
<td>19.5%</td>
<td>9.9%</td>
<td>10.6%</td>
<td>3.9%</td>
<td>13.1%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Rice</td>
<td>25.4%</td>
<td>56.2%</td>
<td>68.0%</td>
<td>50.0%</td>
<td>71.0%</td>
<td>46.7%</td>
<td>72.9%</td>
<td>55.7%</td>
<td>35.7%</td>
<td>17.6%</td>
<td>5.8%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Sorghum</td>
<td>61.4%</td>
<td>82.5%</td>
<td>97.9%</td>
<td>66.0%</td>
<td>57.8%</td>
<td>61.5%</td>
<td>46.8%</td>
<td>53.7%</td>
<td>34.4%</td>
<td>44.9%</td>
<td>41.8%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

Source: ENABAS, Department of Statistics.

*Market Share is taken as: Procurement ENABAS/Marketed Output. Marketed output is estimated as the residue of gross national production for an agricultural season (April 1st – March 31st), minus home-consumption, postharvest losses, seeds and animal consumption. For the seasons 1989–90 to 1991–92 procurement has been measured on the basis of calendar years, as monthly data was incomplete.
Table 2. Domestic prices of corn, beans, rice and sorghum (1980–81 to 1989–90) (ENABAS producer prices and consumer market prices, current C$/quintal)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>ENABAS</td>
<td>75</td>
<td>100</td>
<td>130</td>
<td>180</td>
<td>325</td>
<td>1,000</td>
<td>7,000</td>
<td>50,000</td>
<td>5,000</td>
<td>230,000</td>
</tr>
<tr>
<td></td>
<td>Market</td>
<td>83</td>
<td>125</td>
<td>270</td>
<td>470</td>
<td>800</td>
<td>4,085</td>
<td>20,000</td>
<td>137,500</td>
<td>10,000</td>
<td>295,165</td>
</tr>
<tr>
<td>Beans</td>
<td>ENABAS</td>
<td>280</td>
<td>320</td>
<td>320</td>
<td>390</td>
<td>800</td>
<td>2,300</td>
<td>15,000</td>
<td>138,000</td>
<td>14,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td></td>
<td>Market</td>
<td>393</td>
<td>540</td>
<td>425</td>
<td>815</td>
<td>1,430</td>
<td>12,000</td>
<td>49,740</td>
<td>754,800</td>
<td>35,190</td>
<td>1,384,650</td>
</tr>
<tr>
<td>Rice</td>
<td>ENABAS</td>
<td>250</td>
<td>250</td>
<td>323</td>
<td>366</td>
<td>374</td>
<td>1,600</td>
<td>6,000</td>
<td>80,000</td>
<td>12,900</td>
<td>312,000</td>
</tr>
<tr>
<td></td>
<td>Market</td>
<td>310</td>
<td>315</td>
<td>370</td>
<td>929</td>
<td>1,052</td>
<td>7,500</td>
<td>66,670</td>
<td>706,900</td>
<td>20,677</td>
<td>796,250</td>
</tr>
<tr>
<td>Sorghum</td>
<td>ENABAS</td>
<td>50</td>
<td>85</td>
<td>85</td>
<td>128</td>
<td>140</td>
<td>650</td>
<td>1,800</td>
<td>45,000</td>
<td>4,500</td>
<td>210,000</td>
</tr>
<tr>
<td></td>
<td>Market</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>550</td>
<td>900</td>
<td>5,700</td>
<td>26,670</td>
<td>130,000</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Exchange Rates (Cordoba/US Dollar)

Official 10 10 10 10 10 28 70 70 920 38,150
Black Market 19 39 80 170 450 1,000 3,200 35,000 5,500 50,000
CPI (1980 = 100) 108 133 163 217 325 1,412 11,973 173,282 58494451 1046543368
Inflation 24.8% 23.2% 22.2% 32.9% 50.2% 334.3% 747.4% 1,347% 33,603% 1.689%

Sources: ENABAS, INEC (Instituto Nicaraguense de Estadísticas y Censos), BCN (Banco Central de Nicaragua).
vention consisted of a partial deregulation of grain markets (particularly within regions), with a focus on improving agricultural production and marketed output. In spite of these intentions, the implementation of this policy took more than two years to trickle down to the regional and district levels, as road blocks remained in existence until April 1987. This was not only because intraregional trade remained restricted but also because of the vested interests of local cadres. They considered road blocks efficient in the struggle against speculative private traders (coyotes). In an interview carried out by the author late 1988 with a group of regional officials of the Ministry of Internal Commerce in a northern region, it was commented that the decision to liberalize trade had "struck as a bomb at the cadres," and for awhile they had believed that the government was "surrendering to the enemy." In addition, confiscation of commodities at these road blocks became a major source of official procurement and additional income for the underpaid personnel.4

As part of the military strategy to contain the escalating war further reforms were undertaken after 1985. A reallocation of the (by then already limited) available material resources to the countryside took place to overcome the existing "goods famine" for agricultural producers.5 This led to an expansion of the state-run rural distribution network and the quantities of consumer goods supplied through it. An increased distribution of land to individual peasant families was implemented (which had been limited until then), together with the strengthening of the existing production and CCS (credit & services cooperatives). These policy changes were also supported by the formation of grassroots initiatives such as the Peasant Stores of ECODEPa, a cooperative enterprise linked to UNAG. Finally, official prices for food crops were substantially increased. The combined package of measures, however, negatively influenced the performance of ENABAS, although only with a time-lag of one or sometimes two years. Table 1 shows that in the 1986-87 season, when most of the market liberalization measures had been implemented, peasant farmers were indeed reducing their sales of corn and sorghum to ENABAS, while the drop in beans procurement (traditionally a cash crop) had already occurred. This trend can be explained not only by the higher prices which were offered by private traders but also by the fact that with the economic reforms, consumer subsidies on food grains and sugar were abolished, which meant that it was no longer attractive for food producers to buy food in the nonharvest season. Reserves for home consumption expanded, and the traditional habits of small-scale on-farm storage which had been lost over the years started to reappear. Although the expectation was that state procurement could be maintained at previous levels by increasing official prices and improving the purchasing power of the peasantry, this was not the case. After a short-lived period of improvement of the barter terms of trade, high inflation eroded official prices. This inflationary process (see Table 2) had obvious differential effects, as commercial farmers, who were using more capital-intensive techniques, increased their share of subsidized credit and inputs at the expense of peasant farmers. It is interesting to note that there was indeed a change in grain output, mainly in corn. This was, however, not so much caused by a high supply elasticity in relation to the increase in official procurement prices, but to a lagged response, particularly in the 1987-88 agricultural season, when traditional maize producers had a somewhat greater access to parallel markets, as most road blocks had been abolished just before the sowing season. As urban (noncontrolled) market prices remained very high during 1986 and 1987, the direct sales of grain in these markets were very profitable indeed. Towards the end of this period, it seems that more of the differential profits did flow back to the producers.

In terms of real control over domestic markets or even over the national economy as a whole, by late 1987 the Sandinista government had totally lost its grip. Although in the military field there was a "strategic defeat of the contrata," in the economic field there was a growing inverse relationship between state intervention and real influence or control. This would lead the government to discuss intensively the options for a large-scale economic reform program, which primarily had to redress the enormous distortions in relative prices. Although these reforms were at first planned to take place in November 1987, their implementation was delayed for political and technical reasons until February 1988, when the Monetary Reform was launched. It was a dramatic step in rethinking the role of the state toward agricultural markets, although it seems that old conceptions of intervention continued to exist. Possibly for some parts of the leadership, economic reform meant nothing more than a temporary strategic retreat. Although most of the package introduced can be characterized as orthodox stabilization measures (followed by some structural adjustment-like policies in June and September 1988), the real effect was not decreased state influence or control over the economy, but on the contrary, an increased one. The state acknowledged that the private sector had de facto taken over market control and therefore, the state entered in an open competition rather than simply trying to restrict it with legal or even police measures. By combining this effort with a restructuring of relative prices (cutting subsidies, devaluing the Córdoba and increasing real interest rates), the government was regaining control over the economic process. Furthermore, the huge gap between official and parallel market prices was drastically reduced (see Table 2).

Previously, large-scale state intervention had
meant an apparently rather than a real control. By liberalizing and deregulating markets, the government induced the opposite movement. Unfortunately, there was little coherence in the total adjustment package which was implemented during 1988–90. For example, credit policy, which had become a major instrument for income transfer (instead of the role of financial mediator or catalyst), was not adjusted until late 1988, leaving the highly inflationary impact of subsidized credit intact for too long. Much of the grain market was officially liberalized (except parts of the rice and sorghum market), although ENABAS remained in a strong position because of cheap preferential credit which it continued to receive from the Central Bank and the economies of scale it had in terms of storage, processing and transport facilities. The state-run food distribution system, which had already reduced its scope to a very few basic consumer products which were often delivered erratically, was practically abolished overnight by mid-1988. As a substitute, a new type of workplace-linked distribution of food (including rice, beans and sugar) was introduced to counter the rather dramatic impact of the adjustment policies on real wages in the formal sector, which were rapidly decreasing because of the generated hyperinflation. Finally, during 1989, ENABAS, while withdrawing gradually from its role as major buyer of food crops, focused on indirect forms of price intervention, by supplying retailers in populous urban areas that were prepared to sell products at controlled prices.

(c) The Sandinista leadership’s view of the market

In post-1979 Nicaragua, the Sandinista government aimed at eliminating what they saw as the exploitative role of the market. In this process, however, it also destroyed much of the allocative role of the market, without replacing it with efficient alternative structures. The conceptualization of the market and particularly of the private trader was highly politicized. Comparable with Marxists and structuralist views on “the market”, the agricultural market was seen only as exploitative and most traders as greedy and speculative (except “honest” ones, who were integrated in the newly created state trading networks). Ryan (1987, p. 11), cited an article in the official FSLN newspaper Barricada of November 1979, noting that the creation of ENABAS and the imposition of price controls and movement restrictions would once and for all put an end to the “exploitation of the people.” During early 1980, when shortages of some products were already being felt, ENABAS defended itself publicly against “counterrevolutionary” private traders who had accused it of being the cause of this food scarcity. At that time ENABAS controlled only a relatively small part of the food market, and it countered by saying that it was private traders which were speculating and causing shortages and “illegal” price increases. In a fierce reaction ENABAS threatened that it “could totally take over food distribution,” which would lead to a full substitution of private trade by the state.6

Necessary economic functions of the trade sector such as transport, processing, storage and risk-taking (what is mostly referred to as the process of arbitrage in marketing) were hardly analyzed by the government’s economic decision makers, and the negative image of the middleman as the coyote remained dominant. In many interviews and discussions I had during the late 1980s with state officials involved in market intervention, analysis of marketing was mostly replaced by normative concepts such as “procurement quotas,” “consumption quotas” and “planned distribution.” In Nicaragua under the Sandinistas there was a tendency to substitute other institutions for the market. This tendency was not entirely due to ideological preferences, as it was correctly observed that in pre-1979 Nicaragua the “normal” working of the market had led to resource monopolization by the ruling elite. With the Sandinista Agrarian Reform, however, a severe disruption of previously existing commercial systems occurred (FitzGerald, 1985, p. 219).

The Sandinista leadership’s understanding of the real working of the market and in general of the class structure in the agricultural sector was deficient. Many early decisions were made on the basis of erroneous and mostly ideologically biased assessments, directed by political priorities which had no sound economic foundation. Policy making was based on the important notions of the “dualized economy” and “planning of the market.”7 If one looks carefully at the pattern of land distribution the Nicaraguan agrarian structure does not reflect the traditional dualistic image of rural Latin America, as there is an important stratum of medium-level farmers apart from peasants and landlords. This was and possibly remained the leadership’s conception of the agrarian sector, which influenced decisions about agrarian transformation and technological policy. The importance of these medium-level farmers in the agrarian class structure was ignored, while the large commercial producers benefited much more from state support than was intended, and small farmers and peasants much less (Baumeister and Neira, 1986). The dynamic role of the market, in a situation in which petty commodity production was still dominant, was greatly underestimated, as it was thought that agricultural (and other) markets could be controlled by a set of administrative rules and prices.

At least one aspect of the economic reforms of February 1988 supports the argument that still unchanged conceptions of the market predominated, in spite of the scope of the adjustment program. During the first days after the change in currency,
there was a persistent political propaganda campaign directed at promoting popular confidence in the new currency and the supposed anti-inflationary character of the measures. At the same time, however, popular dissatisfaction about inflation and the economic crisis was clearly channelled toward the "speculators" at Managua's main marketplace (known as the mercado oriental), who were blamed for the increasing shortages of consumer goods. Indeed, political and ideological factors were still dominant, while the crucial coherence in the adjustment measures was lacking.

(d) The institutional context of market intervention

Shortly after July 1979, new state structures had been created. Foreign trade, part of industry and services, and the complete financial system, including all private banks were nationalized. Under Somoza these banks had shown themselves to be efficient control instruments of the accumulation process, and they were once again seen as crucial. Formal agricultural credit was expanded and comprehensive planning was introduced, including a system of planned foreign exchange allocation for imports (inputs, machinery and consumer goods). Furthermore, a great number of service and trading parastatals were created. The degree of specialization and the lack of coordination among them, however, was very high (Kaimowitz, 1988, p. 121). In the grain market the parastatal ENABAS (one of the largest enterprises of the country) had a network of regional companies. There were also regional food distribution parastatals (including supermarkets and retail stores), often having their own supply channels, transport and storage facilities. They competed in limited domestic markets with the private sector, but also with other state agencies, such as the army and large state farms. The newly developing state structures soon started to transform into a wide spectrum of bureaucratic entities, including state companies, ministries, regional government agencies and even divisions or departments. Much of the partitioning of the state apparatus reflected growing vested interests, often related to political factions within the Sandinista Front. As there was little coordination between them, and open competition was quite normal, the result was a form of bureaucratic anarchy, leading to fragmented and often conflicting policies. With regard to price policy this gave rise to a slow bureaucratic process, unable to either adapt or react to a dynamic agricultural market situation, in which, apart from the official market, parallel circuits were rapidly developing. Popular control of marketing and pricing policies, which was given priority by the Sandinista government, also provided many people with the capability of using their influence for personal benefit.

(e) Economic policy under war conditions

In the early years under Sandinista rule, when the foundations of a socialist strategy were laid, there were still conditions of relative peace. Soon the country was virtually in a state of siege, however, and the economy was transformed into a survival economy under war conditions. The Sandinista leadership initially did have substantial room to maneuver in deciding how the economic strategy would be constructed. Nevertheless, at that moment it was not really preoccupied with the detailed content of economic policy (Kaimowitz, 1988, p. 134). Moreover, autonomous economic policy formulation was hardly possible in the overall sphere of mass mobilization and revolutionary transition. Hence, this situation was detrimental to the development and implementation of a coherent set of economic policies during the first years of reconstruction and transformation of the economy. The war against the contra began to have an extremely serious impact from 1983 onward, and continued with great intensity until at least late 1987. It particularly affected the rural zones of the northern and central interior of the country. In general the consequences of the war were devastating. The contra attacked cooperatives, destroyed ENABAS warehouses and means of transport, bridges, schools and first aid posts and ambushed food convoys to remote villages and towns, all of which were seen as symbols of the Sandinista revolution. Apart from the great loss of human life, however, there were other ways in which the war affected the economy and the functioning of agricultural markets. First, the priority in food distribution shifted increasingly to civil servants, the army and security forces. Furthermore, food that was locally procured by army units reduced supplies for the cities, contributing to more shortages. There was a great lack of coordination between the army and other state agencies, which resulted in the wasting of scarce resources. Second, defense mobilization strongly reduced the labor supply and the productive capacity of the peasant population. Third, what was left of the traditional rural-based private grain-trading sector found it very hard to continue under these extremely difficult conditions, despite the apparent business opportunities. Small farmers and agricultural workers often entered (after the partial market liberalization in 1985–86) into trading grains directly in the consumer market, together with new urban-based informal sector traders. Fourth, the war induced a more centralized, secretive economic decision-making process. Economic policy formulation, during the first 1979–81 period of revolutionary turmoil, had already been far from systematic and well-founded, however, when war was mounting, it developed into an erratic trial-and-error process.

When a severe crisis in the Nicaraguan economy
finally became widespread, within a situation of increasing external aggression and necessarily growing defense spending, the government had much less space to maneuver in the economic sphere than before. Although the Sandinista government showed a surprising flexibility in implementing economic reforms, the leadership did not have a firm grasp of the real causes of the crisis in state control over the economy which, apart from the war and economic blockade (and the speculative opportunities this brought about) had to be found primarily in the paradoxical and perverse effects of state intervention in markets. The 1985–87 economic reforms, and also the 1988–90 adjustment program, were therefore far from coherent policy packages. This was also due to the war conditions, economic blockade and lack of foreign funding. They did not produce the intended results and certainly contributed to an unexpected strong expression of popular discontent in the elections of 1990.

(f) Intervention and markets

From the above analysis of the Sandinista state intervention in agricultural markets, a number of conclusions can be drawn. First, the socialist character of the revolution and the mass mobilization of the first “honeymoon” years produced a highly politicized view of markets. Markets were seen as exploitative, inefficient, and monopolistic. The consequence of this analysis of “market failure” was that the private sector was initially banned or greatly limited in its operation. Second, state intervention soon gave rise to a highly centralized system of subsidized inputs, transport and credit. Insufficient understanding existed on the real dynamics of agricultural markets, which were to be ruled by a set of regulations and administered prices. This caused segmentation of markets, however, while after a few years widespread parallel markets became dominant in the economy, and finally the Sandinista government was left with little control over the “real” economy. Third, although subsidized credit indeed reached the peasantry, inflation increasingly favored the larger farmers who also had greater access to parallel circuits. These circuits had restrictive access, while private commercial accumulation (which was to be restricted according to official policy) was rampant. Fourth, agricultural markets had become highly deficient in the second half of the 1980s. They were characterized by greatly distorted relative prices, widespread speculative activities, absence of price-related signals toward quality or cost efficiency, and had characteristics of a sellers market in a shortage economy. This can be both related to the consequences of war, as well as the “perverse” effects of an intervention that tried to substitute the state for the market.

4. UNO GOVERNMENT: PRIVATIZATION, LIBERALIZATION AND DEREGULATION

(a) Privatization

Although the UNO movement did not enter the elections with a well-structured economic program, it was clear from the start that a UNO government would embark on a program of privatization, liberalization and deregulation. After April 1990, a rapid process of privatization of state enterprises and corporations (such as sugar, banana and milk) was executed, although the outcome was influenced by the active struggle of urban and rural trade unions who tried to stop the unilateral transfer of ownership to previous (and often absentee) owners. Some companies were privatized in this way, others were sold to transnational corporations, and others, surprisingly enough, were turned over to the workers after fierce negotiations with the government. The rural workers union ATC (Asociación de Trabajadores del Campo) played an active role in promoting this latter development. By August 1991 already 80% of the state-owned farmland was redistributed. Of that 26% went back to the former owners, 22% was destined for the resettlement of former contras, 17% was given to demobilized army personnel and 35% to the workers of those farms (parcelized or in collective ownership), leaving the largest group of demobilized forces (government soldiers) disadvantaged. In early 1993 around 170,000 manzanas were in the hands of agricultural workers. Most production cooperatives were not affected by any legal process of privatization forced upon them. Nevertheless, in practice parcelization is, after three years of UNO rule, a widespread phenomenon, caused by the economic pressure of the new market conditions, in which the government uses price and credit policy against those cooperatives.

(b) Withdrawal of the state from the market

State policies toward agricultural and food markets drastically changed and the dynamics and structure of these markets also shifted. Large input parastatals such as AGROMAQ and PROAGRO have practically lost their significance, and have been dismembered by government degree or crowded out by private input distributors, who have revived their own import lines from well-known international brands such as Dupont, Bayer and John Deere. This was relatively easy since during the Sandinista period around 50% of this market had remained in private hands. The grain market has been liberalized, and the role of ENABAS (in terms of procurement) eliminated with market shares (based on domestic procurement) of not more than a few percent in the 1992–93 agricultural season.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Area*</td>
<td>305.2</td>
<td>372.3</td>
<td>240.0</td>
<td>231.0</td>
<td>294.0</td>
<td>235.1</td>
<td>266.0</td>
<td>270.4</td>
<td>188.3</td>
<td>225.4</td>
<td>261.2</td>
<td>318.8</td>
<td>326.4</td>
<td>277.8</td>
<td>274.2</td>
<td>289.8</td>
</tr>
<tr>
<td>Corn Output</td>
<td>3,942.1</td>
<td>6,112.2</td>
<td>3,168.3</td>
<td>3,995.3</td>
<td>4,199.5</td>
<td>3,602.6</td>
<td>4,516.7</td>
<td>4,581.2</td>
<td>4,241.4</td>
<td>4,703.6</td>
<td>6,160.9</td>
<td>6,572.1</td>
<td>6,370.2</td>
<td>4,857.3</td>
<td>5,162.7</td>
<td>5,841.0</td>
</tr>
<tr>
<td>Yield</td>
<td>13.0</td>
<td>16.4</td>
<td>13.2</td>
<td>17.3</td>
<td>14.3</td>
<td>15.3</td>
<td>17.0</td>
<td>16.9</td>
<td>22.5</td>
<td>20.9</td>
<td>23.6</td>
<td>20.6</td>
<td>19.5</td>
<td>17.5</td>
<td>18.8</td>
<td>20.2</td>
</tr>
<tr>
<td>Area</td>
<td>88.1</td>
<td>149.7</td>
<td>76.2</td>
<td>77.6</td>
<td>107.5</td>
<td>97.8</td>
<td>126.2</td>
<td>117.9</td>
<td>103.3</td>
<td>142.4</td>
<td>96.6</td>
<td>153.7</td>
<td>151.0</td>
<td>161.0</td>
<td>160.6</td>
<td>150.3</td>
</tr>
<tr>
<td>Beans Output</td>
<td>894.9</td>
<td>1,867.8</td>
<td>635.2</td>
<td>624.7</td>
<td>904.9</td>
<td>1,030.1</td>
<td>1,226.1</td>
<td>1,295.8</td>
<td>1,007.8</td>
<td>1,290.0</td>
<td>740.0</td>
<td>1,225.1</td>
<td>1,300.2</td>
<td>1,559.2</td>
<td>1,561.4</td>
<td>1,426.0</td>
</tr>
<tr>
<td>Yield</td>
<td>10.2</td>
<td>12.5</td>
<td>8.3</td>
<td>8.1</td>
<td>10.5</td>
<td>9.7</td>
<td>10.7</td>
<td>9.8</td>
<td>9.1</td>
<td>7.7</td>
<td>8.0</td>
<td>9.8</td>
<td>7.7</td>
<td>8.0</td>
<td>9.7</td>
<td>9.5</td>
</tr>
<tr>
<td>Area</td>
<td>34.7</td>
<td>37.3</td>
<td>50.9</td>
<td>46.2</td>
<td>59.0</td>
<td>63.2</td>
<td>63.3</td>
<td>54.7</td>
<td>50.8</td>
<td>55.6</td>
<td>54.9</td>
<td>56.5</td>
<td>65.6</td>
<td>57.4</td>
<td>67.3</td>
<td>90.3</td>
</tr>
<tr>
<td>Rice Output</td>
<td>1,030.6</td>
<td>1,175.0</td>
<td>1,359.0</td>
<td>1,376.8</td>
<td>1,947.0</td>
<td>2,134.0</td>
<td>2,233.0</td>
<td>1,942.9</td>
<td>1,774.4</td>
<td>1,725.0</td>
<td>1,502.4</td>
<td>1,405.9</td>
<td>1,629.4</td>
<td>1,614.8</td>
<td>1,628.0</td>
<td>2,374.0</td>
</tr>
<tr>
<td>Yield</td>
<td>29.7</td>
<td>31.5</td>
<td>26.7</td>
<td>29.8</td>
<td>33.0</td>
<td>33.8</td>
<td>35.5</td>
<td>35.5</td>
<td>34.9</td>
<td>31.0</td>
<td>27.4</td>
<td>24.9</td>
<td>24.8</td>
<td>28.1</td>
<td>24.3</td>
<td>26.3</td>
</tr>
<tr>
<td>Area</td>
<td>62.0</td>
<td>70.5</td>
<td>70.8</td>
<td>69.2</td>
<td>79.3</td>
<td>56.2</td>
<td>66.9</td>
<td>72.5</td>
<td>107.0</td>
<td>117.4</td>
<td>109.4</td>
<td>93.3</td>
<td>71.5</td>
<td>65.1</td>
<td>68.4</td>
<td>69.9</td>
</tr>
<tr>
<td>Sorghum Output</td>
<td>930.0</td>
<td>1,356.2</td>
<td>1,379.5</td>
<td>1,939.6</td>
<td>1,951.4</td>
<td>1,150.6</td>
<td>2,224.2</td>
<td>2,354.4</td>
<td>3,246.2</td>
<td>3,769.2</td>
<td>2,408.0</td>
<td>2,407.0</td>
<td>1,680.1</td>
<td>1,605.8</td>
<td>1,532.8</td>
<td>2,017.6</td>
</tr>
<tr>
<td>Yield</td>
<td>15.0</td>
<td>19.2</td>
<td>19.5</td>
<td>28.0</td>
<td>24.6</td>
<td>20.5</td>
<td>33.2</td>
<td>32.5</td>
<td>31.3</td>
<td>32.1</td>
<td>22.0</td>
<td>25.8</td>
<td>23.5</td>
<td>24.7</td>
<td>22.4</td>
<td>28.9</td>
</tr>
</tbody>
</table>

Sources: MIDINRA, MAG

*Area: x 1,000 Manzanas; 1 Manzana (Mz) = 0.7 Ha; Output: x 1,000 Quintas; 1 Quintal (QQ) = 45.6 kg; Yield: QQ/Mz.
†Estimated data provided by the Ministry of Agriculture. The large increase in rice area is of rainfed rice on land where previously cotton was grown. The irrigated rice area reduced.
Nevertheless, ENABAS initially retained a substantial market share when one includes food imports. For corn ENABAS’s share of total gross supply (= domestic production + imports - exports) was still 28% in 1990, for beans 13% and for rice 39% (MAG, 1991, p. 8), a position which was used to stabilize consumer prices of staple food, often in straightforward contradiction with producers interests. By 1992, however, ENABAS had been not only stripped from the import/export monopoly, but private importers were indeed filling this gap. ENABAS was only left with providing and selling storage and processing services, mainly for sorghum, heavily underutilized its substantial physical capacity. A USAID-financed consultancy report recently concluded that ENABAS no longer had a function in current agricultural and food markets (CARANA, 1993), advising that the company be rapidly privatized. For some storage and processing installations in grain producing areas privatization could increase market power of producers, in particular if cooperatives and producers’ associations were involved, although thorough studies should be done on the maintenance and operation costs. In practice the large grain terminals are not in production areas, and therefore of little interest to the private sector, while quite a number of the zonal warehouses and silos need substantial investments. The company itself has recently published a study (ENABAS, 1992) which suggests a more gradual form of privatization (even called “transformation”). By mid-1993 no decision had been made by the government in this respect although it was clear that the necessary investment funds needed by ENABAS for such a transformation were unlikely to come from the limited government budget, nor from external donor funding. In agroexport markets, during the first agricultural season under the UNO government, most of the coffee and cotton harvest was still procured by parastatals (although “illegal” private marketing and border smuggling was widespread). In the 1991-92 season agroexport markets were completely opened to private traders, limiting state involvement, while during the following season all agroexports were liberalized and the market was deregulated, leading to a new oligopolistic market situation dominated by a small number of old and new entries. It is important to note that the apertura of the market has caused the disappearance of cotton, an important traditional export crop in Nicaragua. World market prices dropped, while production costs kept rising. Some of these producers are now switching to crops such as rainfed rice, industrial sorghum and sesame (see Table 3).

The UNO government also initiated a drastic revision of credit policy. For many years during the post-1979 decade, agricultural credit was heavily subsidized, implicitly by inflation and more explicitly by high default rates and debt cancellations. Although during the Sandinista adjustment program (1988-90) an effort was made to bring interest rates to positive levels through indexation, the implicit subsidy still remained. In May 1990, the Central Bank announced that credit had to be repaid in the new Gold Córdoba which was issued for stabilization purposes. This change took place after most of the credit for the early 1990-91 harvest had already been allocated, therefore the reduction in agricultural credit volumes in 1990 was still the consequence of the reforms initiated by the Sandinista government. The decrease in the volume of formal agricultural credit, particularly for staple food crops can also be seen from the following figures. From a total credit financed area for corn, beans, rice and sorghum of around 389,000 manzanas (1989-90 season), this was reduced to 265,000 manzanas (1991-92) and to only 124,500 manzanas (1992-93). The sectors which were mostly affected were peasant farmers and cooperatives, which can be induced from a dramatic drop in the finance for production of corn and beans. Between the agricultural seasons 1989-90 to 1992-93 the Bank reduced its finance for corn from 186,700 to only 19,800 manzanas and for beans from 79,100 to a mere 5,600 manzanas. The consequence for corn production has been a substantial drop in production (in comparison with the late 1980s), although according to recent (possibly overly optimistic) estimates of the Ministry of Agriculture this trend is reversing. For beans there was first an increase in production, due to the enormous influx of producers (around 10-15,000 demobilized personnel entering into peasant farming) and the special credit services which were provided to them (such as through the UN-sponsored project of PRODERE). This was followed by stagnation and even a drop in production. In rice and sorghum (particularly that grown in the coastal regions by commercial farmers) one can observe an increase that is related to the shift away from cotton (Table 3). It is interesting to note that the credit squeeze, to date, did not lead to a severe contraction, partly because of the reasons just mentioned, but also because for many years productive credit was functional more as an income transfer than as productive working capital. Finally, in financial markets in the post-1990 period the phenomena of informal credit, future harvest purchase, etc, have reemerged, filling part of the gap left by the state.

(c) Prices and pricing policy under UNO rule

Soon after taking power the UNO government announced “guideline prices” for grain, at more or less border price levels, but no mechanisms were provided which could enforce these prices. Only in late 1991 did the UNO government introduced a price band system for corn, rice, sorghum and soya in order to avoid the impact of large price fluctuations on domestic
markets, comparable with those used in several other Latin American countries. Taking into account the fact that farmgate prices are often inaccurate, some of these fluctuations and a general trend are shown in Table 4. Average corn prices have remained rather stable (apart from harvest versus nonharvest fluctuations), bean prices dropped substantially, while rice prices somewhat rose during the post-1990 period. According to one source, however, real market prices during the 1990-91 harvest season were on the whole lower than in the 1989-90 season. The same source stated that the withdrawal of ENABAS from the market had “depressed market prices,” while this policy was exploited by private traders, making use of the liquidity crisis of the peasantry (ENVIO, 1991, p. 32). Although initially there was a drop in prices, it seems that there were other factors that caused this. First, the intervention of ENABAS until 1990 contributed to the emergence of parallel markets with much higher prices (Table 2). The disappearance of parallel markets and the “premium of illegality” lowered those market prices. Second, demand contraction was an important consequence of more strict monetary and credit policies, depressing market prices. Third, these policies also affected rural commerce leaving traders with limited purchasing power at harvest time. Fourth, food donations and imports were used to lower consumer prices in the still continuing hyperinflation during 1990. Finally, previous ENABAS intervention has not protected the peasantry from the market, as official prices were mostly lower than parallel market prices.

(d) Liberalization, remonopolization and state policies

There has been a process of remonopolization in the post-1990 period, coinciding with the liberalization and deregulation of agricultural and food markets. A small number of urban wholesale traders now dominate the market, but some new agents also have appeared, such as economic groups that emerged with the collapse of the Sandinista regime during a process of a nomenclatura privatization, or those linked to the small farmers’ union UNAG and the agricultural workers’ association ATC. In fact, the reason that staple food markets have not been rearticulated since is the sudden opening to external markets, while the grain producing valleys of the interior have great difficulty in marketing their output. Some fundamental changes in the agrarian structure caused by land reform and the formation of cooperatives, could now strengthen the market position of the numerous stratum of peasant farmers. Directed forms of state intervention, however, are necessary to consolidate this, where in practice the UNO government has turned to the “other extreme” of laissez-faire. Extension services have practically been eliminated, credit resources are limited, research nonexistent and investments in rural infrastructure are at very low levels. Private banks that have emerged are only financing trade, industry and some agroexports, but have no interest in the risky grain market. The market has a speculative tendency and is one of “low volumes, high profits.” Under pressure from donors some roles of the state are now being redefined, ranging from the legalization of land titles and the provision of a set of rules and regulations to accompany land transfers, the formation of a centralized institution of technology transfer and the most recent ideas of experimenting with agricultural auctions and value exchanges (bolsas agropecuarias). A number of joint missions of the World Bank, FAO and the IDB have in fact suggested the UNO government to install an interministerial coordinating committee for agricultural policies, as the rapid process of state compression (compactación) had led to a near paralysis of the state’s capacity to initiate and implement policies. Most of these policies, however, are directed to agricultural production and technology, while the necessity to (re)build rural marketing systems is hardly considered. The grain-producing areas in the northern and interior regions of Nicaragua are extremely difficult to penetrate (because of road conditions and security reasons), and therefore not well connected to urban markets. The search for economic policy alternatives should thus be directed to what forms of direct or indirect intervention is appropriate to develop these (and other) marketing systems. This will include a broad range of policies to improve feeder roads, communications, market places, price information (particular by radio), transport systems and appropriate and well-planned storage and processing facilities. This is needed in order to build or reconstruct markets, that are more efficient and that offer better opportunities for both peasant farmers and urban consumers. The UNO government, after an initial period of continuous hyperinflation, has}

Table 4. Grain prices in the post-1990 period (dollar/quintal)

<table>
<thead>
<tr>
<th>Month/Year</th>
<th>12/89</th>
<th>03/90</th>
<th>09/90</th>
<th>12/90</th>
<th>03/91</th>
<th>09/91</th>
<th>12/91</th>
<th>03/92</th>
<th>09/92</th>
<th>12/92</th>
<th>03/93</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>6.0</td>
<td>5.3</td>
<td>10.0</td>
<td>7.5</td>
<td>6.0</td>
<td>7.0</td>
<td>5.0</td>
<td>7.5</td>
<td>10.0</td>
<td>7.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Beans</td>
<td>28.0</td>
<td>—</td>
<td>24.0</td>
<td>22.0</td>
<td>21.5</td>
<td>20.0</td>
<td>20.0</td>
<td>8.0</td>
<td>11.0</td>
<td>22.0</td>
<td>19.0</td>
</tr>
<tr>
<td>Rice</td>
<td>16.0</td>
<td>—</td>
<td>17.5</td>
<td>17.0</td>
<td>13.0</td>
<td>16.0</td>
<td>21.0</td>
<td>21.5</td>
<td>23.0</td>
<td>21.0</td>
<td>19.0</td>
</tr>
</tbody>
</table>

Source: ENABAS, own calculations.
flation, with the second stabilization program from March 1991 onward has been successful in controlling inflation. The outlook for the agricultural sector is rather grim, however, in view of a continued policy of state compression, combined with strict monetary and credit policies (also squeezing rural trade), and low levels of public and private investment. The expected reactivation to be brought about by “the market” has not come, and it is unlikely to come if the state does not react decisively by playing an “initiative role” toward agricultural and food markets.

5. CONCLUSIONS

The case of Nicaragua, where state intervention within a socialist strategy during the 1980s was followed by a laissez-faire policy in the post-1990 period, clearly underlines the theoretical point made in the opening of this article, namely that both “extreme” positions are not based on a proper understanding of the dynamics of real markets, nor on the role of the state in relation to the market. Indeed some lessons can be drawn for the changes from interventionist state policies to a laissez-faire approach under structural adjustment programs in LDCs and for the current transitions in the former socialist systems toward market economies in Eastern Europe. First, while the role of the state was previously to substitute for the market, the pendulum movement has swung to the other extreme, namely that the state has little role to play or at maximum has a “facilitative” one. Particularly in the wave of shock therapies applied in Eastern Europe (in particular in Russia) markets were supposed to reemerge whenever state withdrawal was combined with full-scale liberalization. The creation of a new set (financial, monetary and juridical) of institutions by the state, and its role in market development and in particular rural marketing systems, was very low or even not present on the policy agenda. This can also be observed in Nicaragua. Second, for the agricultural sector — as was shown above — this absence leads to the creation of an institutional vacuum with dramatic consequences. The sudden absence of financial institutions, the insecurity of property rights, the breakdown of official marketing networks, absence of private transport and retail systems, and the elimination of technical assistance to farmers have contributed to this development. In the Nicaraguan case even the World Bank has now indicated that the incapacity for initiation and implementation of state policies must be tackled in the short run. Third, state withdrawal (or compression) with domestic and external liberalization of markets did not improve market access for most agricultural producers, while cooperatives or collectives (even the well-functioning ones) were hit hardest. Grain markets, in cases where the state trading network breaks down, have not changed overnight into free and competitive markets, in which remonopolization takes place. As was seen in the Nicaraguan case, the private sector is not very active in filling the gap left by the state and most are characterized by “low volumes, high profits.” Finally, monetary stabilization, which in the post-1990 period in Nicaragua, but also in Eastern Europe and the former Soviet Union, as part and parcel of the transition to market economies, has dominated the policy agenda. This is indeed crucial, but it should be done in conjunction with institution building, based on the real problems market development present during this transition. This is a process in which the role of the state is crucial, although in mainstream thinking about “market reforms” this is not recognized as such.

NOTES

1. Mosley, Harrigan and Toye (1991), discussing the implementation of structural adjustment programs conclude that the implementation of reforms in the state trading sector (although being at the core of the SALs) was a highly sensitive issue because of rent-seeking and employment-related aspects.

2. During most of the period, except 1983–85, an official exchange coexisted with an (officialized) parallel and a black market one. This parallel exchange rate provided importers the opportunity to buy foreign exchange. A complicated system of multiple exchange rates was used for exports.


4. This observation was made by a high-ranking cadre of the Ministry of Internal Commerce (MICOIN) at a CIERA seminar, October 1988.

5. The goods famine was caused by severely reduced imports of consumer goods as a result of the post-1982 foreign exchange shortage, the stagnating domestic supply of manufactured goods and the increased demand (related to consumer subsidies and the spread of “urban” consumer habits).


8. Barricada January 7, 1985, noted that ENABAS had 3,500 workers and its expenditure was at a level comparable with 12% of the government budget.


10. In a field trip to the militarily disputed Valley of
Pancasan (September 1988), I observed an ENABAS convoy which moved at high speed, in order to avoid surprise attacks. Passing traders on roads in the northern highlands I was always impressed by the huge painted letters on their trucks, saying privado (private).

11. In an interview an influential member of the UNO party, Ramiro Gurdíán said, nevertheless, that production cooperatives would remain, but with individual land titles for members (Pensamiento Propio, 1990).

12. Only after much pressure of UNAG the UNO government published in May 1993 a set of rules and regulations on the possible transfer or sales of cooperative land. This followed publicity on a great number of cases in which land was sold to traders, the military and large farmers in doubtful transactions at very low prices.

13. At that moment the Gold Cordoba was pegged to the dollar (1 US$ = 1 C$). In March 1991 a devaluation to 1:5 following, recently adjusted to a level of 1:6 (January 1993).

14. Data provided to the author by the BND (renamed into BANADES), May 1993.

REFERENCES


ECLAC, Changing Production Patterns with Social Equity (Santiago: ECLAC, 1990).


Mackintosh, M., “Questioning the state,” in M. Wuyts, M. Mackintosh and T. Hewitt (Eds.), Development Policy


