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ISSUES OF 'STATE AND MARKET': FROM INTERVENTION TO DEREGULATION OF FOOD MARKETS IN NICARAGUA (1979-1992)

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Contents

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INTRODUCTION

Governments of LDCs should 'only minimally intervene' in markets, particularly in agricultural markets. This statement, in these same words or phrased otherwise, takes a crucial place within the mainstream thinking that underlies contemporary **laissez-faire** policies. For decades **state intervention** in agricultural markets was widespread (and also supported by international donors), directed to the protection of national industries, holding down the price of food, taxing export agriculture and manipulating the income distribution and barter terms of trade between industry and agriculture. However, since the early-1980s, privatization, liberalization and deregulation have become the catchwords in economic policy recipes in a new era characterized by structural adjustment and market-type reforms in LDCs, while much of the interventionist schemes in agricultural markets still continue in Europe and the United States.[1]

This paper analyzes the 'apparent' dichotomy of state versus market in terms of this transition of interventionism towards laissez-faire policies, with particular reference to food markets. In the <u>first</u> section of the paper this is done at a general level, providing elements to support the position that state intervention is needed for market development in LDCs (as well as in developed countries). The current emphasis on reducing state involvement will fail to produce positive results when domestic agricultural markets are

[1]There is increasing pressure from the United States on the EEC to diminish subsidies to farmers and decrease protection (as part of the GATT negotiations). However, intervention in agro-markets in the United States is also significant, strongly contrasting with the policy recipes which the World Bank (and IMF) are prescribing to LDC governments.

not functioning as competitive, efficient or integrated as sometimes is supposed. Food insecurity is then only increased by 'relying' exclusively on 'the market' (Sen [1981]).

In the following two sections, I will apply the argument at a concrete level, by discussing the interesting case of Nicaragua (1979-1992). Nicaragua is passing through a **double** transition in a time-span of just more than one decade. It started off from the pre-1979 market economy, which was characterized by a process of resource monopolization by the ruling élites; it passed through a decade of revolution (1979-1990), in which state intervention in markets was omnipresent; and finally it entered -after the February 1990 elections- into a process of market liberalization and deregulation with a limited role of the public sector. These changes took -and are still taking- place under very difficult circumstances. During the period under Sandinista rule the leadership was confronted with an escalating war and the consequences of a complete economic blockade by its previous main trading partner. State intervention in markets, translated in macro- and sectoral economic policies, are therefore to be understood within an overall situation of intense political struggle, which led to the overthrowing of the Somoza regime, had great impact on the outcomes of the revolutionary process and finally determined the peaceful transition from the Sandinista to the new UNO-government. The sometimes breathtaking speed of developments in Nicaragua during the last nearly one-and-a-half decades provide a fascinating scenery for the transitions in economic policy towards agricultural markets.

In the <u>second</u> part of the paper, the large-scale state intervention in domestic agricultural markets of food staples in Nicaragua under Sandinista rule (1979-1990) is analyzed. This intervention was particularly strong during the first half of the 1980s, ranging from overvalued exchange rates, subsidized agricultural credit and inputs, administrative prices, state procurement and food distribution through a parastatal network of urban and rural shops and stores. It is interesting to note beforehand that during the last two years of Sandinista government (1988-1989), with the implementation of the economic reform program (ERP), already some liberalization and deregulation of agricultural markets was introduced. However, I will also argue that interventionist concepts which existed earlier about the role of the market and private trade, remained strongly present within the Sandinista leadership.

In the third section I will draw some preliminary conclusions from the first two years of UNO-government which took power after their victory in the elections of February 1990. The current move towards liberalization, privatization and deregulation under the new government (1990-92) is broadly discussed. Interestingly enough, during this first period of UNO-rule, in spite of the overall **laissez faire** ideology of the movement, government intervention remained still important and a rather gradual transition towards reducing the role of the state has been promoted. However, it is questionable whether this initial approach will remain in existence much longer, as during 1992 Nicaragua's government policy will have to undergo careful screening by the IMF or World Bank in order to obtain the loans which it seeks. According to the standard recipes which are included in the **conditionality** of Structural Adjustment Loans (SAL), the privatization of public enterprises, liberalization of markets (both domestic and foreign) and deregulation should go far beyond the current state of affairs brought about by the initial post-1990 economic reforms. The UNO-government will certainly continue on this path and it seems that the FLSN-opposition has not yet been capable to come up with viable alternative economic programs which may counter the dramatic social effects of coming (much more harsh) structural adjustment programs, or even suggest alternative options for growth and equitable development.

I. 'STATE AND MARKET': FROM INTERVENTIONISM TOWARDS LAISSEZ-FAIRE

What should be understood before to enter into an analysis of this transition, is that the often stated dichotomy of **interventionism** versus **laissez-faire** is at least partly a false one. Firstly, in terms of their view of the market, the underlying theoretical frameworks of the two schools share common ground. On the one hand, structuralist or Marxist theorists see markets normally as exploitative (with great inequalities in access to and control over resources), inefficient, segmented and monopolistic. Therefore they propagated state intervention in markets and the limitation or even banning of private trade. On the other hand, the neo-classical or monetarist schools of economic thought see markets as perfect instruments of allocation of resources, competitive, efficient and integrated. The position that is defended in this article is (see also Mackintosh [1990] and Harriss [1990]) that neither one nor the other is analyzing **real markets**, and both ignore the dynamic nature of agricultural markets. The interventionist idea of state intervention, 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, comes to grips with the dynamics of real markets. Secondly, although much of the state intervention implemented during the 1960s and 1970s has indeed changed during the 1980s, all governments in developing and developed countries **do** intervene in agricultural markets (Mackintosh [1990]). It is incorrect to think that 'success stories' of economic growth like South Korea and Taiwan are good examples of non-interventionism. On the contrary, these economies have benefited from a strong and continuous state involvement.

States often prolong their intervention in agro-markets because of existing vested interests of the state apparatus in the **old** types of market intervention.[2] Indeed, as Harriss [1990:102] notes correctly, the conflict between state and regulated markets was often more "apparent than real", with strong mutual interests between merchants and the state. This phenomenon, which we might define as **private interest** of the state, a concept which is equally applicable to developed countries, has caused much of the slowness with which LDC governments have reformed their state trading enterprises.[3]

There is, however, a general tendency (partly forced upon LDC governments by the conditionality included in the structural adjustment lending of the IMF, the World Bank, 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 Latin America particular critique has been expressed on 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 as CONASUPO in Mexico are under attack and mostly privatized or altogether eliminated.[4] There is no denial that the previous state intervention in agricultural and particularly domestic food markets has contributed to possibly unintended phenomena as large bureaucracies, vested interests related to the private interest of the state, corruption, lack of incentives and inefficient forms of marketing. However,

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[2]Robert Bates, in Commander [1989], defends the polemic position that with the implementation of structural adjustment programmes, groups in the state apparatus that have vested interests reestablish their control instead of losing it.

[3]Mosley, et al. [1991] presents data on 'implementation rates' of adjustment programmes, in which he shows that only 50-60% of the provided recommendations had been implemented by LDC governments. Particularly those reforms concerned with parastatal organisation were delayed, as many thousands of people and their incomes were affected in such an operation.

[4]Hewitt de Alcántara [1991] provides an interesting analysis of the impact of economic reforms in the Mexican maize sector.

the **bureaucratic failure** (which is to be contrasted with the **market failure** which preceded interventionism) does not provide sufficient validity to the argument in favour of such drastic withdrawal of the state, but should have induced a search for a more efficient public intervention in agricultural market. The role of the private sector and indigenous commercial entrepreneurship must be stimulated but governments should continue to intervene in markets (CEPAL [1990]). This can not be done as defore during the era of 'interventionism', but this intervention has to promote that markets play a dynamic role in growth and development. In doing so, the state will in fact promote market development and at the same time continues its influence over the production and distribution of certain public goods.

There are at least three reasons to defend this position. First, the competitiveness and high degree of integration of agricultural markets in LDCs, which is presupposed in most market-type reforms, in our opinion is more a neoclassical theoretical abstraction than an accurate description of the reality of those markets. Therefore, liberalisation and deregulation of markets can not be used as a general prescription to reform agricultural marketing systems.[5] Second, the operational capacity (in terms of physical marketing functions) of the private sector after independence of most LDCs was limited, but has been also reduced in some cases by state intervention. State intervention has sometimes contributed to greater segmentation of agricultural markets, but has also shaped new market structures where monopsonistic markets existed (Spoor [1991:32]). LDC governments should indeed, instead of a withdrawal from markets, contribute to a process of **market development**, by providing information, licences, infrastructural investments, promoting quality control and standardisation. Parastatal entities should enter in

[5] Lawrence Smith, in a lecture at ISS, January 1992, defended this position quite intelligently for the case of Kenya.

competition with the private sector in some key segments of the marketing chain, where they might have advantages of scale or information. Furthermore, there are other public goods which should be provided by the public sector, like agricultural research and rural credit. **Third**, it has been argued, as part of the current mainstream thinking on market-type reforms, that markets will allocate resources in an optimal way, stimulating growth and development. However, as Mackintosh [1990:43] noted, the argument of Sen [1981] is still valid, that the **normal** working of markets mostly contributes to food insecurity. If no attempt is made to reform the distribution of and access to productive resources (other than labour power), and existing power relations remain, both interventionism as well as laissez-faire policies will, in the end, primarily strengthen those in society who command these resources (Spoor [1991:33]).

II. MARKET INTERVENTION AND SANDINISTA REVOLUTION (1979-1990)

State intervention before the 1979 Revolution

Under the Somoza-regime economic policies related to agricultural markets, however liberal they may have looked at the surface (because of the free convertibility of the Córdoba, monetary stability and an open character with respect to external markets), in fact, they were far from the case. It was actually, as Kaimowitz [1988:117] noted, a model of **resource monopolization** of land, labour, credit, commercial capital and agro-industrial processing capacity, dominated by a small, but powerful ruling élite. The state played an important role in promoting economic development while guaranteeing the growing skewness in the distribution of economic power (FitzGerald [1985:209]). The state intervened in crucial links of the economy, through the financial system, the labour market, and the agricultural market itself. Although the system was highly exploitative, it had also a substantial degree of articulation, with clear backward and forward linkages between production, circulation, distribution and consumption (Kaimowitz [1988:117]).

Grain markets were basically dominated by a small landlord-merchant class. There was also a much larger (and heterogenous) stratum of independent small merchants, but they were only able to take a relatively small share of marketing margins. They functioned mostly as no more than the "filling" (relleno) of the system, in which they were simply participants without having any substantial market control[6]. In general, peasants, peasant farmers and agricultural workers were entangled in a network of exploitative relations of production and distribution, through a system of **interlocking markets** (Pacey & Paine [1985]), particularly those of informal credit, labour, land, inputs and even consumer goods, in which market power was concentrated in the hands of small groups of merchant-landlords, bankers and industrialists. In the domestic grain market the state intervened through its parastatal INCEI (Nicaraguan Institute of External and Internal Trade), with the rather limited objective of seasonal and spatial price stabilization, by purchasing a small percentage (5-10%) of the total grain output, and operating a national bufferstock (Spoor [1990:528-9]).

State and Agricultural Markets under Sandinista Rule (1979-1990)

In the aftermath of the revolution, the Sandinista leadership saw the Nicaraguan economy as a dependent one in the international market, generally underdeveloped and highly unequal with regard to income distribution and access to productive resources. Therefore intervention in agricultural markets was seen as crucial to achieve two main objectives, namely to obtain a wide-scale control over the economy seen as a sine qua non condition to set

[6]Interview with a high level Sandinista cadre, who was regional delegate of the Ministry of Internal Commerce (MICOIN) in the Region I, during the period 1984-1989. Cited in Spoor [1991:191].

a **state-centred accumulation** process in motion (in which surplus transfer played an important role), and to promote agricultural growth and **food security**. Elsewhere, I have discussed in detail the limitations of the state-centred accumulation model[7], here we will analyze only the increased state intervention in food markets, which was aimed at changing the income distribution in favour of marginal consumers, to stabilise food prices, and generally to increase food security and even national food self-sufficiency.

Two main instruments were used for state intervention in food markets. Firstly, the expansion of parastatal involvement in procurement, imports, processing, transport and marketing (at wholesale and retail levels) of basic food staples like maize, beans, rice and sorghum, therefore opting for a much more direct intervention in the grain market than the Somoza-regime had done before. Secondly, the use of price policy (guaranteed producer prices, pan-territorial pricing, price controls) and movement restrictions to promote spatial and seasonal price stabilisation and to provide a greater access to food for low-income groups.

The parastatal market intervention, ENABAS (Empresa Nacional de Alimentos Básicos), the newly formed successor of INCEI, became rapidly the largest single buyer of grain, and therefore the market leader, while other private agents could only legally buy and sell at official prices. However, in practice parallel circuits were important for maize, beans and partly also rice, and would in fact become even the dominant market from the mid-1980s onwards, particularly because of the growing leakage from the official distribution network to the black market. For rice and industrial sorghum, crops which for an important part were produced by commercial farmers, the parastatal intervention was complemented with long-term commercial agreements

[7]See Spoor [1991], Chapter II. FitzGerald [1985] does also discuss this problem, particularly referring to a sort of new resource monopolization by the State sector (and part of the CAS-production cooperatives).

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 in the grain market is displayed, presenting a picture that ENABAS was capable to dominate grain markets (except in maize) in terms of the procured share of estimated marketed (domestic) output until at least the 1984/85 agricultural season.[8] If one would include the imports of food staples (donated or purchased) which have been particularly high in 1980-81 (maize, beans and rice), 1983 (yellow maize) and from 1984 onwards (rice and with increasing variance, maize, beans and sorghum), the dominant position of ENABAS in the domestic grain market becomes even greater (Spoor [1991:68], MAG [1991:8]).

TABLE 1

Market Share of ENABAS*

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
MAIZE	20.8%	29.9%	33.2%	31.7%	39.6%	38.8%	22.0%	24.7%	20.0%
BEANS	49.1%	50.9%	69.9%	52.4%	32.6%	17.9%	19.5%	9.9%	10.6%
RICE	25.4%	56.2%	68.0%	50.0%	71.0%	46.7%	72.9%	55.7%	35.7%
SORGHUM	61.4%	82.6%	97.9%	66.0%	57.8%	61.5%	46.8%	53.7%	34.4%

Source: Spoor [1991:65-7].

Note : *Market Share is taken as: Procurement ENABAS/Marketed Output

This is interesting as it has been shown in several studies (Dévé & Grenier [1984], Mendoza [1989], Spoor [1991]) that producer prices offered by ENABAS for particularly maize and sorghum, during the first four agricultural seasons after 1979, were so low that producers with a traditional technology and low

[8]Marketed output is estimated as the residue of gross national production for an agricultural season (April Y_t-March Y_{t+1}), minus home-consumption, post-harvest losses, seeds and animal consumption.

yields were not able to recover there production costs. Cash deficits of producer households that consequently arose could only be cleared through the implicit subsidies on credit (debt cancellation and non-indexed interest rates) and outright decapitalization (MIDINRA [1987]). The fact that during the first half of the 1980s ENABAS' share in the grain market rose strongly was therefore due to a combination of price and non-price factors. Firstly, initially there was political support for the government amongst the peasantry, because of the elimination of the repression by Somoza's National Guard and as result of the Agrarian Reform which favoured peasant and peasant farmers. Secondly, state procurement was part of a package that was offered to the producer, including credit, distribution of inputs and sometimes consumer goods. It was not unusual that ideological or economic pressure was used in order to channel marketed surplus through ENABAS. This was particularly the case for the CAS-production cooperatives. Thirdly, the pan-territorial price policy which was implemented since 1981 and the legal measures against private traders brought about a situation in which for some time ENABAS effectively became market leader in many grain producing areas. Fourthly, in spite of low official producer prices, purchasing power was not severely affected because of the availability of consumer goods (often through imports) and effective price controls in the very first years of the revolution.

By 1984, when the contra-war was already ravaging the country-side, the state distribution system became more and more deficient. Parallel markets had developed everywhere, and purchasing power of particularly peasant farmers was rapidly decreasing. As in rural areas state distribution of basic consumer goods (like cooking oil, sugar, salt, kerosine and batteries) was much less developed than in urban areas, prices were rapidly rising. They moved upwards in line with the black market exchange rate for the dollar, reaching a manyfold of the strongly overvalued official one.[9] Not surprisingly the peasantry became more and more strangled by the 'market conditions' of parallel circuits, in which officially they were not allowed to sell their produce, but where in practice they were forced to buy there consumption necessities. Grain movements were heavily restricted by police-enforced road blocks, discouraging traders to move grain to Managua, in spite of the enormous price differential in the 'two tier' price system. On the one hand, it seems that the movement restrictions were causing a very limited access for producers and traditional small (rural based) traders to the parallel market. On the other hand, it is questionable whether large traders (often with an urban base) were really obstructed in there business activities, as road blocks did not function permanently and they were obviously sensitive to bribery. Finally, private traders used the official ENABAS price as a yardstick, creating rapidly growing marketing margins and opportunities for private commercial accumulation (Spoor [1991:98]).

The new economic policy which was introduced early 1985 had as its main objective the improvement of the internal terms of trade of the peasantry. War had now 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.[10] The new policy of market intervention consisted of a partial deregulation of grain markets (particularly within regions), with a focus on improving agricultural production and marketed output. In spite of its intentions, it seems that the implementation of this policy took more than two years to

[9]The gap between the two exchange rates had become increasingly large, as the official exchange rate had remained fixed from 1980-84 on 10 C$ to 1 US$, while the black market exchange rate rose from 19 C$ (late 1980) to 450 C$ (late 1984). This gives a good indication of the sharp differences in relative prices and the problems of measurement of real purchasing power.

[10]See: Alejandro Bendaña [1991], for a radical view of a former high Sandinista cadre, who defends the position that misconceived agricultural policies were the main cause of peasants joining contra-revolutionary forces.

trickle down to the regional and district level, as road blocks remained in existence until April 1987. This was not only because intra-regional trade remained restricted but also because of the vested interests of local cadres. Firstly, they considered road blocks efficient in the struggle against the 'speculative' private traders (coyotes). In an interview held late 1988 with the author a group of regional officials of the Ministry of Internal Commerce in the northern Sixth Region, it was commented that the decision to liberalize trade had "struck as a bomb at the cadres", and for a while they had believed that the government was "surrendering to the enemy".[11] Secondly, confiscation of commodities at these road blocks became a major source of official procurement and additional income for the normally underpaid personnel.[12]

A substantial reallocation took place of the (by then already limited) available material resources to the countryside (to overcome the existing 'goods famine' for agricultural producers[13]) with an expansion of the network of state-run rural distribution and the quantities of consumer goods supplied through it. Furthermore an increased distribution of land to individual peasant families was implemented (which had been marginal until then), together with the strengthening of the existing production and credit & services cooperatives network. These policy changes were also supported by the formation of grassroot initiatives like the Peasant Stores administrated by the peasant and small farmers union UNAG (Unión Nacional de Agricultores

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[11]Field notes of a research trip to Matagalpa, 2 September 1988.

[12]This observation was made by a high ranking cadre of MICOIN at a seminar for government officials, advisors and independent researchers, organised by CIERA in October 1988. At one point he mentioned that half of the grain procurement of ENABAS in the Region I was formed by confiscations at the road blocks. This may be grossly overstated, but his remark is indicative.

[13]'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).

y Ganaderos). Furthermore, official prices for food crops were substantially increased. The combined package of measures did negatively influence the performance of ENABAS, although only with a time-lag of one or sometimes two years. In Table 1 we observe that in the 1986/87 season, when most of the market liberalization measures had been really implemented, peasant farmers were indeed strongly reducing their sales of maize and sorghum to ENABAS, while the drop in beans procurement (traditionally a cash crop) had occurred already earlier. This should not only be explained by the higher prices which were offered by private traders. The phenomenon must also be related to the fact that with the economic reforms consumer subsidies on food grains and sugar were abolished, which meant that it was not attractive anymore for food producers to buy food in the non-harvest season. Reserves for home-consumption were therefore increased, and the traditional habits for small-scale on-farm storage which had become lost over the years started to reappear. Although the expectation had been that state procurement could be maintained at previous levels by drastically increasing official prices and improving the purchasing power of the peasantry, this was not the case. Moreover, after a short-lived period of improvement of the barter terms of trade, high inflation eroded official prices. This inflationary process (1985: 334.3%; 1986: 747.4% and 1987: 1,347.2%) had obviously differential effects, as commercial farmers, using more capital intensive techniques, increased their share in subsidized credit and inputs at the expense of peasant farmers. It is interesting to note (see Table 2) that there was indeed a change in output in particularly maize. 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 in particularly the 1987/88 agricultural season, when traditional maize producers had a somewhat greater access to parallel markets as road blocks had been abolished just before the sowing season. As urban 'free'

TABLE 2

Cultivated Area, National Output and Average Yield (1977/78-1990/91)
Maize, Beans, Rice, Sorghum

		1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91
	Area	303.2	372.3	240.0	231.0	294.0	235.1	266.0	270.4	188.3	225.4	261.2	318.8	326.4	277.8
MAIZE	Output	3,942.1	6,112.2	3,168.3	3,995.3	4,199.5	3,602.6	4,516.7	4,581.2	4,241.4	4,703.6	6,160.9	6,572.1	6,370.2	4,857.3
	Yield	13.0	16.4	13.2	17.3	14.3	15.3	17.0	16.9	22.5	20.9	23.6	20.6	19.5	17.5
	Area	88.1	149.7	76.2	77.6	107.5	97.8	126.2	117.9	103.3	142.4	96.6	153.7	151.0	161.0
BEANS	Output	894.9	1,867.8	635.2	624.7	904.9	1,030.1	1,226.1	1,259.8	1,007.8	1,290.0	740.0	1,228.1	1,360.2	1,550.2
	Yield	10.2	12.5	8.3	8.1	8.4	10.5	9.7	10.7	9.8	9.1	7.7	8.0	9.0	9.6
	Area	34.7	37.3	50.9	46.2	59.0	63.2	63.3	54.7	50.8	55.6	54.9	56.5	65.6	57.4
RICE	Output	1,030.6	1,175.0	1,359.0	1,376.8	1,947.0	2,134.0	2,233.0	1,942.9	1,774.4	1,725.0	1,502.4	1,405.9	1,629.4	1,614.8
	Yield	29.7	31.5	26.7	29.8	33.0	33.8	35.3	35.5	34.9	31.0	27.4	24.9	24.8	28.1
	Area	62.0	70.5	70.8	69.3	79.3	56.2	66.9	72.5	107.0	117.4	109.4	93.3	71.5	65.1
SORG-	Output	930.0	1,356.2	1,379.5	1,939.6	1,951.4	1,150.6	2,224.2	2,354.4	3,346.3	3,769.2	2,408.0	2,407.0	1,680.1	1,605.8
GHUM	Yield	15.0	19.2	19.5	28.0	24.6	20.5	33.2	32.5	31.3	32.1	22.0	25.8	23.5	24.7

Source: MIDINRA, MAG

Note: Area : x 1,000 Manzanas (1 Mz.= 0.7 Ha)
Output: x 1,000 Quintals (1 QQ.= 45.6 Kg)
Yield : QQ/Mz.

market prices remained very high, during the years 1986-87, 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, one must conclude that by late 1987 the Sandinista government has lost totally its grip. Although in the military field one spoke correctly about the 'strategic defeat of the contra', 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 would primarily have to redress the enormous distortions in relative prices (both internally as in relation to border prices).[14] Although these reforms were at first planned to take place in November 1987, their implementation stagnated for political and technical reasons and it took to mid-February 1988 before a first step was undertaken. Early 1988, with the Monetary Reform, a program of economic adjustment was launched. It was a more dramatic step in rethinking the role of the state towards agricultural markets, although it seems that for long old conceptions continued in existence. Possibly for some parts of the leadership economic reform meant nothing more than a temporary strategic retreat. Although most of the introduced package can be characterized as orthodox stabilization measures[15] (followed by some 'structural adjustment'-like policies in June and September

[14]Sharp price differentials remained in the 'two tier' price system of food crops, with 'free' market consumer prices and official producer prices having ratios between two and ten. Also other relative prices were heavily 'distorted', such as the subsidized price of diesel oil. This generated a whole new business for international truckers from Honduras and Costa Rica whose sole activity was to fill their empty tanks in Nicaragua and sell the liquid in their home countries.

[15]Stahler-Sholk [1990].

1988), the real effect was not a 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 entered in an open competition rather than simply trying to restrict it with legal or even police measures. By combining this with a restructuring of relative prices (cutting subsidies, devaluating the Córdoba and increasing real interest rates), the government was regaining some control over the economic process. Previously, large-scale state intervention had meant increasingly an 'apparent' 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 the 1988-89 period. 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 that it still received 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 very few basic consumer products and often delivered erratically, was practically abolished overnight by mid-1988.[16] 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

[16]The National Consumer Register, which was set up in 1985/1986, on the basis of which ration cards and official distribution were provided, was eliminated in July 1988. Although certainly the system had its in-built bias (as more and more people had included 'ghost' family members in their files), it could have been a valuable source of statistical information for policy makers. However, it was never constructed, nor conceived and finally not conserved for such an -information- task.

of the adjustment policies on real wages in the formal sector, which were rapidly decreasing because of the generated hyper-inflation. Finally, during 1989, ENABAS, while withdrawing somewhat from its role of major buyer of food crops, focused on **indirect** forms of **price intervention**, by contracting retailers in populous urban areas to sell products at controlled prices. Those retailers soon became known as the ENABASitos.

View of the Market of the Sandinista Leadership

In post-1979 Nicaragua, the revolutionary government aimed at eliminating the exploitative role of the market. In this process, however, it also destroyed much of the allocative role of the market, without replacing it by efficient alternative structures (Spoor, et al.[1989:320]). As the then Minister of Agriculture and Rural Development, Commander Jaime Wheelock said quite self-critically:

> At one point, together with some sectors of production or market regulation, we wished to let the law of value disappear but actually the basic grains disappeared...What had happened? Not only did prices rise even more because of shortages, but these products disappeared from the market. This was a voluntarist interference in a system that articulates itself according to laws of the market (Wheelock [1983:117]).

However, apart from this incidental illuminating remark from the top of the Sandinista leadership about the primarily ideological or voluntarist view of the market, one finds very little reference in official discourse that would indicate sufficient awareness of the consequences of this type of market intervention (Spoor & Mendoza [1988:4]). The conceptualization of the market and particularly of the private trader was highly politicized. 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). As Ryan [1987:11] noted, citing an article in the official FSLN- newspaper Barricada of November 1979, with the creation of the National Foodstuffs parastatal ENABAS and the imposition of price controls and movement restrictions, it was considered that this 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 "counter-revolutionary" private traders who had accused ENABAS of being the cause of this food scarcity. By that time ENABAS controlled only a relatively small part of the food market, and it countered by saying that it was private trade which was speculating and causing shortages and "illegal" price increases. In a fierce reaction it threatened that it "could totally take over food distribution", which would lead to a full substitution of private trade by the state.[17]

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 being the **coyote** remained dominant. In many interviews and discussions I have had 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". We may recall at this point, what Mackintosh [1987:256] said about Mozambique, namely that the "commercial policy tended to assume away the force of the market". This rather precisely describes what happened in Nicaragua under Sandinista rule as well, where in spite of some government concern not to create a Cuban-type of state controlled distribution system (Collins [1985:121]), nevertheless the tendency to **substitute** other institutions for the market was strongly present. 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 élite. Markets

[17]Barricada, 12 April, 1980, pp.1-4.

for domestically consumed food crops and agro-export markets were both quite monopolistic and exploitative. However, they were also relatively well articulated during the Somoza period. With the Sandinista Agrarian Reform, a severe disruption of previously existing commercial systems occurred. As FitzGerald [1985:219] correctly notes:

> The Agrarian Reform demolished the traditional private commercial links that provided tools, clothing, etc. and even credit in exchange for harvest at the farm- gate and transporting them to the market, albeit as part of an exploitative relationship.

We may conclude that the understanding of the Sandinista leadership of the real working of the market and in general of the class structure in the agricultural sector was insufficient. Many early decisions were made on the basis of erroneous and mostly ideologically biased assessments, directed mainly 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'.[18] If one looks carefully at the pattern of land distribution we can see that the Nicaraguan agrarian structure cannot be accurately described by using the traditional dualistic image or rural Latin America. However, this was (and remained possibly all along) the conception the Sandinista leadership had of the agrarian sector, which substantially influenced decisions about agrarian transformation and technological policy. In the agrarian class structure the importance of the medium farmers was ignored, while the large commercial producers benefitted much more from state support than was intended, and small farmers and peasants much less (Baumeister & 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).

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[18]See Spoor [1990], for a summary of the debate on the agrarian structure in Nicaragua.

It is interesting to point at one aspect of the monetary reform of February 1988, that indicates still unchanged conceptions about the market, in spite of the scope of the adjustment program of the Sandinista leadership. 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 towards the 'speculators' at Managua's main market-place (known as the <u>mercado oriental</u>), who were blamed for the increasing shortages.[19] Political and ideological factors were still dominant, while the crucial coherence in the radical adjustment measures was obviously still lacking.

<u>The Institutional Context of Market Intervention</u>

Shortly after the revolutionary victory, 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 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). As far as agricultural markets were concerned, a great number of service and trading parastatals were created, such as ENAL (cotton), ENCAFE (coffee), ENIA (agricultural inputs), AGROMEC (machinery services) and ENABAS (basic foodstuffs). However, the degree of specialization and equally the lack of coordination was very high indeed

[19]The name "oriental market" suggests something like China-town, but means in reality nothing more than the market in the eastern part of the capital.

(Kaimowitz [1988:121]). If we just concentrate on food markets, a great number of institutions were founded to intervene. There was the parastatal ENABAS (one of the largest companies of the country), which had regional companies in most of the regions.[20] Furthermore there were regional food distribution parastatals (including supermarkets and retail stores), often having their own supply channels, transport and storage facilities, with overlapping functions in distribution. They competed in limited domestic markets with the private sector, but also with other state agencies, like the army and large complexes of state farms. It would be insufficient to take a view here that the initial efforts to replace previously existing private (and some state) agents in the agricultural market by the new parastatal ones, were well-intended but poorly designed and managed, because of inexperience and 'romanticism'. There is no doubt that this is true, but there is something more than that. In fact, the newly state developing structures soon started to transform into a wide spectrum of bureaucratic entities, whether they were state companies, ministries, regional government agencies and even divisions or departments. As there was little coordination between them, and open competition was quite normal, the result was that a form of **bureaucratic anarchy** was created, leading to fragmented and often conflicting policies. With regard to official 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, other parallel circuits were rapidly developing. Popular control of marketing and pricing policies, which was given priority by the Sandinista government, seemed to have provided also many people with the possibility to use their influence for personal benefit. In an interview with the author, a former high ranking cadre of MICOIN noted on the situation

[20]According to Barricada, 7 January 1985, p.3, ENABAS had then 3,500 workers and its expenditure were at a level comparable with 12% of the national budget.

of the mid-1980s:

> The system had become corrupt. The popular stores continued to supply the black market. Evasion of marketing controls in food processing state companies became worse all the time. We have to emphasize that the price policy, which aimed at promoting the welfare of the people, in practice did not contribute to this. Shortages corrupted the system.

It is interesting to note at this point that the state distribution network from the beginning had been set-up within a general framework of income redistribution. However, halfway the decade, the economy became a generalized shortage economy, and the distribution was de facto more and more directed towards civil servants, the army, local militia, and workers in state-run industrial and agricultural enterprises. The pressure to redirect the scarce resources to the country-side only meant that the already decreasing supply for urban areas was even more affected. The years 1986 and 1987 were indeed extremely difficult ones in terms of access and supply of foodstuffs. This was partly because of insufficient output, but also related to an increase in the farmer's home-consumption (in view of a continuing 'goods famine') and due to the very high prices which had to be paid by urban consumers in the parallel market. In this same period, however, the first signs of real market reforms were already showing, like the lifting of the existing grain movement restrictions, the different (less monopolistic) role of ENABAS, and the large-scale distribution of official licenses to previously illegally operating traders. The latter measure was certainly a prelude for the legalization of the parallel market.

Economic Policy under War Conditions

In the early years of the revolution, when the foundations of the (ex-post defined) strategy were laid, there had still been conditions of 'relative peace'. Soon after the country was virtually caught in a state of siege, in which the economy was slowly transformed into a 'survival economy' under prolonged war-conditions. However, the Nicaraguan Sandinista leadership, especially in the early stages of 'relative peace', did have substantial room to manoeuvre in deciding how the economic strategy would be constructed. Nevertheless, at that moment the leadership was not much bothered with the detailed content of economic policy (Kaimowitz, 1988:134]), and we could add that no autonomous economic policy formulation was even possible in the overall sphere of mass-mobilization and revolutionary transition. Hence, this was detrimental for 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 counter-revolutionary forces, already in progress since as early as 1981, began to have a an extremely serious impact from 1983 onwards, and continued with great intensity until at least late 1987. It particularly affected the rural zones of the northern and central interior Region I, V and VI. 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 seen as symbols of the Sandinista revolution.[21] The losses in human lives were numerous, not only in military personnel, but the contra also assassinated many civil servants, like the rural cadres of the MIDINRA Land Reform Directorate, teachers, cooperative organizers, state farm managers and health workers, and countless ordinary farmers.

There were many other ways in which the war affected the economy and subsequently agricultural markets. Firstly, locally procured food by the army

[21]In one field trip to the military rather disputed Valley of Pancasan (September 1988), I run into such a ENABAS convoy which moved itself at extremely high speed, in order to avoid surprise attacks. Passing traders on roads in the Northern highlands, I was always impressed by the large painted letters on their trucks, saying privado (private).

units reduced supplies for the cities, contributing to more shortages. Furthermore, there was a great lack of coordination between the army and other state agencies, which meant mostly spilling of scarce resources. Secondly, defence mobilization strongly reduced the labour supply and basically the productive capacity of the peasant population. Thirdly, the still operating, traditional rural-based private sector in the grain trade found it very hard to continue under these extremely difficult conditions, in spite of the apparent business opportunities. Often small farmers and agricultural workers entered themselves (after the partial market liberalisation in 1985/86) into trading grains directly to the consumer market, together with new urban-based informal sector traders. Fourthly, war mobilization meant a more centralized, secretive economic decision-making process (in spite of the decentralization move initiated in 1982-83). For a number of years any form of adequate information to the population, about economic policies and their impact, was taboo. The most simple (and necessary) economic data, even including agricultural prices, were sometimes seen as state secrets. Economic reporting in the official newspaper Barricada was until at least 1985 not only minimal, but also mostly uncritical and apologetic. 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, economic policy making developed into an erratic trial and error process.

When finally a severe crisis in the Nicaraguan economy became widespread, within a situation of increasing external aggression and necessarily growing defence spending, the government had much less space to manoeuvre in the economic sphere than before. This was partly because of the unintended effects provoked by market intervention policies, and partly because of the "speculators' paradise" conditions which the war had created

(Mackintosh [1987]). The Sandinista government showed a surprising flexibility in implementing economic reforms, but I am inclined to think that the leadership did not really have a firm grasp of the real causes of the crisis in state control over the economy. The early 1985-87 economic reforms, and also the 1988-89 adjustment programs, were sometimes ill-conceived and implemented in a partial, half-hearted way. Obviously the situation of war, economic blockade and lack of foreign funding made it also difficult to provide coherent packages of measures. At the end of the day, they did not produce the intended results and certainly contributed to an unexpected strong expression of popular discontent in the elections of 1990.

III. UNO-GOVERNMENT: PRIVATIZATION, LIBERALIZATION AND DEREGULATION

Although the UNO (Unión Nacional Opositora) did not enter the elections with a well structured economic program, one thing was clear from the start, namely the an UNO-government would embark on a program of privatization, liberalization and deregulation[22]. After the elections of February 1990, the speed at which this process would take place was broadly agreed upon during the discussions on the 'transition agreements' between the FSLN and the UNO. Subsequently, an important representative of the Nicaraguan entrepreneurial rural bourgeoisie, Ramiro Gurdián said just before the 25th of April 1990:

> ...the people of Nicaragua did not choose its government in order to be manager of a company. We cannot destroy the state enterprises, but they will be marked by the gradual tendency towards privatization (Pensamiento Propio [1990:30]).

In practice the process of privatization of state enterprises and corporations (like in sugar, banana and milk) indeed took place at a gradual pace, certainly influenced by the active struggle of urban and rural

[22]See: ENVIO, February 1991, '¿Privatizar, A favor de Quien?, pp.14-18.

trade-unions who tried to stop the transfer of ownership to previous (and often absentee) owners. Some companies were privatized in this way, others were sold to transnational companies, and others, surprisingly enough, were turned over to the workers after fierce negotiations with the government. The rural workers union ATC (Associación de Trabajadores en el Campo) played a very active role in promoting this latter development. From the state-owned farmland also part was returned to former owners, part was destined for the resettlement of former contras, part was given to demobilized army personnel and the rest to rural workers who chose to take over the farm where they were employed. Furthermore, production cooperatives were mostly not affected by any form of privatization forced upon them, although in the programme of the UNO it was said that members of production cooperatives should receive individual land titles while the cooperative could remain in existence.[23] Therefore, in spite of the general move to privatization, most of the gains of the Agrarian Reform (in terms of ownership) have been hardly affected.

With regard to the state intervention in agricultural markets there is a drastic change in policies and development of the dynamics of the market. Large parastatals like AGROMAQ and PROAGRO have practically lost their significance, crowded out by private input distributors, who have revived their own import lines from well-known international brands like Dupont, Bayer, John Deere etc. This was relatively easy as the during Sandinista period around 50% of this market had remained in private hands. The grain market has been completely liberalized, and the role of ENABAS in terms of procurement has become minimal (accept in the case of sorghum in which producers pressed the government to buy it, when the market was heavily affected by the import of yellow corn). However, ENABAS still plays an

[23]This position was taken by the same Ramiro Gurdián in the above cited interview.

important role in the import and distribution of food, as part of the anti-inflationary program which has turned out to be rather successful since the latest currency reform of March 1991. Using donations of grains, the government (through ENABAS) was able to contain price increases in the domestic market.

A recent publication of the Ministry of Agriculture (MAG [1991:8]) notes that, although there was a strong reduction in procurement performance of ENABAS in the grain market, it still retains a substantial market share when one includes the sizable food imports. For maize ENABAS' share of total gross supply (=domestic production + imports - exports) was 28% in 1990, for beans 13% and for rice 39% (MAG [1991:8]). ENABAS played also an important role in the import and distribution of other necessary consumer goods (a role for which under the previous government it had been always criticized as being inefficient). Finally, in export markets, during the first agricultural season under the UNO-government, coffee and partly cotton was still mainly procured by parastatals (although 'illegal' private marketing and border smuggling was wide-spread). In the season 1991/92 agro-export markets have been completely opened to private traders, strongly reducing state involvement. In October 1991, in the new perspective (1992-96) five-year plan, the Ministry of Agriculture stated that very soon, in cooperation with the Ministry of Economy, it:

> ...would have to take further the deregulation and elimination of all still existing [market] barriers by state monopolies or state intermediaries in direct foreign sales of export products like: meat, cattle, coffee, sesame, tobacco, sugar, melon, etc. (MAG [1991:67]).

One of the main changes in state intervention policies with regard to agricultural markets was the revision of credit policy. For many years during the post-1979 decade, agricultural credit had been heavily subsidized, implicitly by inflation and more explicitly by high default rates and debt cancellations. Although during the Sandinista adjustment program (1988-89) a start was made to bring interest rates at positive levels through indexation, the transfer of implicit subsidy had still remained (Spoor [1991], Ch.V). 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 partly still the consequence of the reforms initiated by the Sandinista government. In real terms (at constant 1980 Córdobas) the volume of agricultural credit was reduced by 36.9% in 1989 and by 43.7% in 1990, although the hyper-inflation in these particular years might have distorted the final outcome.[24] The sectors which were mostly affected were state farms, peasant farmers and cooperatives. Commercial farmers (while having a reduced volume in absolute terms) increased their share in total agricultural credit. The decrease in the volume of formal agricultural credit, particularly for basic grains can also be seen from the following figures. From a total credit financed area for maize, beans, rice and sorghum of around 389,000 manzanas in 1989, this was brought back to 263,000 manzanas in 1990 and to even only 182,900 manzanas in 1991 (FIDEG [1991]). What is however interesting to note is that the grain output has only suffered minor changes, except in the case of maize, where subsidized maize has indeed played an important role (Table 2).[25]

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[24] I refer here to the time-lag between the moment of application of a producer for credit and the actual date of disbursement, a difference which, in circumstances of very high inflation can seriously affect the real volume.

[25] According to ENVIO, February 1991, p.31, for the agricultural seasons 1989/90 and 1990/91 much lower grain output figures are published, "on the basis of data" provided by the Ministry of Agriculture (MAG). However, these figures strongly contradict the position expressed by the same source that producer prices dropped over this same period. Therefore we have used only original data of the Ministry, which seemed more reliable.

Surprisingly enough the Central Bank announced "guideline prices" for grain, at more or less border-price levels, although no policy was provided which could enforce these prices.[26] However, according to several sources real market prices during the 1990/91 harvest season in November 1990 were lower than in the corresponding period of 1989 during the 1989/90 harvest (and lower than the official guideline prices).[27] The UNO-government has recently (MAG [1991:64]) stated that during the year 1992 a so-called 'price band' system will be introduced for maize, rice, sorghum and soya, comparable with those used in several other Latin American countries.[28] Maximum and minimum prices for these crops will be announced every season, and the role of ENABAS will be partly directed to price stabilization through procurement, appropriate imports and exports, and the use of bufferstocks. The company will also offer a package of productive and commercial services to grain producers, while it will operate as "one buyer more" in the market. In this respect the UNO-government is following the line of the economic reforms which had been introduced during the last two years of Sandinista rule. What is however not clear is the minimum size of ENABAS that can guarantee the effectiveness of the above specified roles, as the perspective of gradual (but steady) privatization is also confirmed:

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[26]Barricada, 15 June 1990, p.9.

[27]According to ENVIO, February 1991, p.33, during the seasons 1989/90 and 1990/91, the price of maize dropped from 5 to 4 C$ (O), beans from 19 to 12 C$ (O), sorghum from 5 to 3 C$ (O) and rice from 14 to 13 CS (O). The authors did however not explain their methodology, nor did they estimate the influence of demand compression caused by structural adjustment and the market sales of grain donations. MAG [1991:19] confirms partly this position, comparing farmgate grain prices with Central American wholesale levels, but elsewhere it states that the Net Protection Coefficient had approached nearly unity.

[28]See for an analysis of price bands for wheat in the Chilean case, Muchnik and Allue [1991:67-73]).

> In the medium-run, to the extent that associations or groups of private grain producers have acquired more entrepreneurial capacity and capital resources, the installations of ENABAS could be privatized or rented to producers in order to expand their market position and autonomy of their decisions [Ibid:69].

If this includes production and service cooperatives it could have positive effects, increasing the 'market power' of those producers. However, if this substantial infrastructure would fall into the hands of large private merchants or urban-based financial groups the end result for the agricultural producer-side is rather doubtful.

It is interesting to see that criticism by the opposition has now been expressed on the withdrawal of ENABAS from the market , stating that it would "depress" market prices (ENVIO [1991:32]):

> The tendency of basic grain prices to drop became more profound because in the first place, ENABAS drastically reduced its procurement of the harvest and, in consequence, depressed the market. That policy was highly exploited by private traders who furthermore benefitted from the extreme shortage of liquid funds that the peasantry endured.

It questionable whether this is the case, as previously the intervention of ENABAS led to the emergence of parallel markets with much higher prices. Those who had access to these markets benefitted in fact indirectly from state intervention (Hernandez [1989]). The above cited analysis also suggests that increased state procurement automatically would provide the farmer with higher and more stable prices. However, the experience of the market intervention by ENABAS during the 1979-90 proves different. The authors of the above quotation reveal a still unchanged view of the market, which considers private trade and indigenous entrepreneurship as only exploitative:

> Everything seems to indicate that these [a.o. the rearticulation of private trading networks] are the first signs of a return to patterns existing before the revolution, of dominance of commercial -and also financial- capital over the peasant economy, which had to a large extent lost force with the state intervention in markets during the first years of the revolution. This means an important transfer of resources from the peasantry to the intermediaries (ENVIO [1991:28]).

Although during the first years of the Sandinista revolution indeed commercial capital was restrained in its operation and accumulation, already by 1983-84 state intervention had contributed to a situation in which parallel markets became uncontrollable and private traders (often urban-based) in fact strongly benefitted from the 'two tier' price system. It is rather unlikely that privatization of agricultural marketing will lead to the type of articulation based on repressive force which we saw during the 1960s and 1970s under the Somoza regime. Furthermore one should not underestimate the fundamental changes in the agrarian structure the land reform and the formation of cooperatives have provoked. It is certainly untrue that a renewed state intervention of the type we have seen during the 1980s would overcome the problems of involuntary transfer of surplus from the farmers. Therefore the search for economic policy alternatives should be directed to what forms of direct or indirect intervention, combined with the development of cooperative forms of marketing could possibly better protect the interests of peasant farmers.

IV. CONCLUDING REMARKS

In this paper I have tried to show that the 'interventionist' approach towards agricultural markets, which was dominant in Nicaragua under Sandinista rule, is gradually but steadily changed by the UNO-government in a 'laissez-faire' position. It was pointed out that market intervention policies during the 1979-90 period have suffered from a great lack of coherence and that they were often erratic and based on a 'learning by doing' process. The Nicaraguan economy, after a short-lived period of relative peace, transformed in a 'survival economy' under war conditions, while it furthermore suffered from the economy blockade. These external factors, together with the shortcomings in the leadership's view of the market and the agrarian structure and in market intervention policies, caused a complex of mostly contradictory and unintended outcomes. Since 1985 a gradual reform was implemented, particularly due to military-strategic considerations. However, only with the economic reforms of 1988-89 the Sandinista leadership a major policy change was introduced, although I question whether the 'view' of the market changed sufficiently. The final outcome was in any case problematic[29], although at least the government regained a certain amount of control which it had totally lost by the end of 1987.

After April 1990, when it was installed, the UNO-government has embarked on a programme of liberalization, deregulation and privatization. During the first two full years in power, this still has been done in a rather gradual way. This is related to social and political pressure of urban and rural trade unions and organisations of peasants and farmers, the remaining strong 'vested interests' in the state apparatus which oppose privatization, and the initial availability of sufficient funds for stabilization purposes without the strict conditionality for 'market-type' reforms. It is also interesting to see that the UNO-government does recognize the crucial role of the state in a process of market development:

> Given the deterioration of market mechanisms during the past decade, the government has to play an active role to promote the development of flexible and competitive markets for commodities and services, improving the transparency and information, stimulating the creation of distribution channels and reducing entry and exit barriers (MAG [1991:26]).

However, ideas on how to promote **market development** are not yet very developed, and may remain at the level of neo-classical economic analysis stating that <u>no</u> intervention is simply the most efficient form of intervention, while <u>de facto</u> state involvement in agricultural markets is more and more reduced. While there exists a rich experience in Nicaragua on

[29]Obviously this outcome was also related to the implementation of a stabilization and adjustment under politically still unstable conditions and without excess to supplementary external funding.

different types of market intervention policies and their (often unintended) outcomes, it will be important to avoid the politically convenient- but practically outdated- ideological positions about **the** state and **the** market (Harriss [1990]), and look for those types of interventions in which public and private agents in agricultural and particularly food markets can carry out certain functions with growing efficiency, while interests of both the mass of peasant farmers as well as poor consumers are protected.

Finally, and this is the crux of the paper, there is still a profound lack of analysis of **real** markets. On the one hand this is because from the side of the FSLN-opposition, still ideologically inspired (and often incorrect) generalities are used which will not lead to a better understanding of the dynamics of agricultural markets. On the other hand, in spite of some consciousness about a necessary new role of the State towards agricultural markets, the general tendency of UNO-policy makers to reduce state involvement and to 'rely on market forces' might be dominant. It is clear that there is a need for a agricultural market analysis which takes the changing dynamics and its impact on producers and consumers into account. This is even more pressing as the neo-liberal economic policies of the UNO-government will certainly continue and further develop, and possibly quite soon more rigid structural adjustment programs will be forced upon the UNO-government by international financial donors.

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